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SPACE LAW, SPACE WAR AND SPACE EXPLOITATION

By George S. Robinson

Arranging the progress of space law so that it fits into some reasonably secure perspective for statesmen and academicians, can take the shape of the traditional, heavily-footnoted intellectual exercise . . . or it can be a disciplined reminiscence of the "soul" of that body of law.

The Origins of Space Law

If there is truly any majesty in "the Law," it can be sensed, not in the solemnity of the text of principles, but only in the manifest willingness to recognize the underlying collective spirit and to support and defend the relevant principles fully. In the history of space law, I have seen effective continuity only in efforts by lawyers and statesmen to make invidious accommodations of the intent of the Outer Space Treaty of 1967. (1) Collectively, these transgressions have led away from the peaceful exploitation of space to such projects as the Soviet Union's Fractional Orbital Bombardment System, navigational satellites which are integral to Earth-based ICBM delivery systems and Hunter-Killer satellites!

The history of the United States' motivation for supporting the formulation of United Nations Resolution 1721, (2) the 1967 Outer Space Treaty, and related agreements, is well recorded; at least those views intended for public consumption. And the same is true of the spirit and intent whereby the Soviet Union entered into negotiating public order for exploring and exploiting outer space. For space law *as it was*, we can turn to that history and make some reasonable determinations, reach some acceptable conclusions, and decide whether the primary declaration of legal principles, the Outer Space Treaty of 1967, is an accurate reflection of space law and space activities *as they presently are*.

The Concept of International Cooperation

The United States' policy of embracing international cooperative efforts for the exploration of space arose from the onset of the intercontinental ballistic missile race. The availability and

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contribution of the scientific earth satellite program to the International Geophysical Year provided a surface ambience of peacefulness to that cooperative policy. But the primary provocateur was the prevalence of ICBMs, and the frightening implications of an unchecked and aggressive military presence in space. On the other hand, the U.S. earth satellite program for IGY was apparently to "test 'Freedom of Space' as a principle of international law." (3)

President Eisenhower, fearful of space activities extending militarism beyond Earth's surface, presented his dramatic"open skies" policy in Geneva, Switzerland on July 21, 1955. In this he offered a reciprocal exchange with the Soviet Union for a reciprocation of "a complete blueprint of our military establishments. . . " and a "comprehensive and effective system of inspection and disarmament . . . . " (4) President Eisenhower confirmed his dedication of space to peaceful purposes:

> [W]e "seek that outer space shall be used only for peaceful, not military purposes . . . . (5)
>
> "I proposed that we agree that outer space, should be used only for peaceful purposes. We face a decisive moment in history in relation to this matter. Both the Soviet Union and the United States are now using outer space for the testing of missiles designed for military purposes. The time to stop is now. . .
>
> "If indeed it be the view of the Soviet Union that we should not go on producing ever newer types of weapons, can we not stop the production of such weapons which would use or, more accurately, misuse, outer space, now for the first time opening up as a field for man's exploration? That is my proposal. . . (6)
>
> "A terrible new menace can be seen to be in the making. That menace is to be found in the use of outer space for war purposes." (7)

The history of Eisenhower's presidential position on outer space, his effort to avoid its militarization, and the United States' commitment to space exploration and exploitation for peaceful purposes, is extensive. But the obvious military potential of space in a technologically advanced age began to exert itself until we find Eisenhower himself stating in a private conversation that:

". . . In the [IGY] satellite program. . . it was expected

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> that. . . Observers would be welcome. On the other hand, in a missile program, many defense secrets would be jealously guarded. In order to be successful in both purposes – and to keep the satellite effort from interfering with the high-priority work on ballistic missiles – it seemed mandatory to separate the programs. (8)

And from that notable recognition, of the need to hedge U.S. bets on non-militarization of outer space, came the policy of a dual American space program: one that would embody the transcendent peaceful efforts image, and one that would quietly match the Soviet Union, step by step, in its more open and very likely aggressive military plans for space. The space face of Janus was conceived. There would be a peaceful space program . . . and a military one. Although, in a November 4, 1959 news conference, President Eisenhower has said that non-military space exploration was "a sort of doctrine in America," (9) he had already laid the ground work for future policy in 1958:

> ... I decided that non-military research in outer space could best be conducted by a new civilian agency. Information acquired by purely scientific exploration could and should. . . be made available to all the world. But military research would naturally demand secrecy. The highest priority should go of course to space research with a military application, but for national morale, and to some extent national prestige, this should likewise be pushed through a separate agency. (10)

This bifurcation of the United States space effort created:

1) an open civilian program for exploration of space on a supposedly "international" cooperative basis; and

2) a secret commitment to a secret military space program with the "highest priority being given to space research with a military application."

The result of this duality of programs was a conflict among provisions of the National Aeronautics and Space Act of 1958, (11) and also the abandonment of the earlier resolve to exclude militarism from outer space, despite Article 4 of the Outer Space Treaty of 1967.(12) The representatives negotiating that Treaty presented a dove and olive branch to the public, but made compromising deals under the table.

One of the most influential documents on the posture

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adopted by U.S. negotiators for the Outer Space Treaty of 1967 was the National Aeronautics and Space Act of 1958, as amended.

The tenor of Congressional intent supporting the Act is almost ethereal in its clarion declaration:

42 USC 2451(a)

> The Congress declares that it is the policy of the United States that activities in space should be devoted to peaceful purposes for the benefit of all mankind. [Given general public ignorance of U.S. space capabilities and activities, it was easy to overlook the fact that nothing was said about limiting the policy to "civilian activities."]
>
> . . . (c) The Aeronautical and space activities of the United States shall be conducted so as to contribute materially to . . .
>
> (1) the expansion of human knowledge of phenomena in the atmosphere and space; . . .
>
> (4) The establishment of long-range studies of the potential benefits to be gained from, the opportunities for, and the problems involved in the utilization of aeronautical and space activities for peaceful and scientific purposes;
>
> (5) The preservation of the role of the United States as a leader in aeronautical and space science and technology and in the application thereof to the conduct of peaceful activities within and outside the atmosphere; . . . and
>
> (7) Cooperation by the United States with other nations and groups of nations in work done pursuant to this chapter and in the peaceful application of the results thereof . . . (13)

But note just two of several critical provisos from the National Aeronautics and Space Act. In Section 2451(b) of the Act, the Congress further declares that such peaceful activities for the benefit of all mankind

> "shall be the responsibility of, and shall be directed by, a civilian agency [i.e., NASA] exercising control over aeronautical and space activities sponsored by the United States, except that activities peculiar to or primarily associated with the development of weapons systems, military operations, or the defense of the United States. . . shall be the responsibility of, and shall be directed by, the Department of Defense. . . . "

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The latter covers just about every activity in which NASA is involved. Section 2451(c)(8) provides that an objective of the Act is to establish

> "the most effective utilization of the scientific and engineering resources of the United States with close cooperation among all interested agencies [particularly the Department of Defense] of the United States in order to avoid unnecessary duplication of effort, facilities, and equipment."

This is a fair, if not understated, characterization of NASA's relationship with the Department of Defense. Given that important perspective of the official U.S. posture in approaching negotiations for the Outer Space Treaty, it is less than difficult to sense a questionable innocence behind statements of U.S. and Soviet diplomats and other officials when United Nations representatives sat down to hammer out the provisions of that Treaty.

The Outer Space Treaty is a product of United Nations' machinations. President Lyndon Johnson launched the U.S. into official negotiations by offering a May 7, 1967 proposal that would ensure that the moon and other celestial bodies would be explored for peaceful purposes only! "I am convinced," said the President, "that we should do what we can – not only for our generation, but for the future generations – to see to it that serious political conflicts do not arise as a result of space activities. (14) President Johnson was not just concerned that space be explored for peaceful purposes only. He was convinced that space likely would be used for warfare if a firm prohibition with the heaviest moral sanction were not included in any treaty encompassing this principle.

Arthur J. Goldberg, then U.S. Ambassador to the United Nations, requested in a May 9, 1966 letter to Kurt Waldheim, then Chairman of the United Nations Committee on the Peaceful Uses of Outer Space, an early convening of the Legal Subcommittee of the Committee on Outer Space to consider a United States draft space treaty. In this letter, Goldberg emphasized that U.N. "Resolution 1721, of December 20, 1961, set forth essential legal principles applicable to outer space in an enlightened fashion that has no precedent in any previous age of exploration."(15) It was clear that the United States did not wish to give the appearance that it considered this to be simply

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"treaty business as usual."

The Soviet view was expressed in a May 30, 1966, letter to the Secretary General from Ambassador Fedorenko, transmitting the following statement from the USSR Minister for Foreign Affairs Andrei Gromyko: "To prohibit the use of the moon and other celestial bodies for military purposes would be a major step [towards complete disarmament]. . . and would be calculated to ensure peace on earth and the security of people." (16) The entire tenor of the letter espoused peaceful uses to protect people on earth – not just in space, but particularly on earth.

But Article 4 of the Treaty provides in part that –

> States Parties to the Treaty undertake not to place in orbit around the earth any objects carrying nuclear weapons or any other kinds of weapons of mass destruction, install such weapons on celestial bodies, or station such weapons in outer space in any other manner . . . [T]he testing of any type of weapons . . . on celestial bodies shall be forbidden.

Even before the Treaty came into effect, statesmen, politicians, academicians, military strategists, and the like, began to seek ways of construing the terms of this Article that would permit an aggressive military capability in space. Further, interpretations of Article 4 and the other provisions of the Treaty are being determined bilaterally in the SALT talks and by other more invidious armament trade-offs. Whether SALT talks ultimately succeed or fail, the political and jurisprudential chastity of the Outer Space Treaty is badly tarnished by the facile peddling of its transcendent principles; both by the Soviet Union and the United States. All the other parties to the Outer Space Treaty have been systematically disfranchised from any effective involvement in the interpretation and application of the Treaty provisions relating to the militarization of space.

Prima facie, the Outer Space Treaty of 1967 appears to be a firm and effective embodiment of the spirit and intent underlying agreement by a large number of United Nations' member-States regarding the principles to guide space exploration and exploitation. But no matter how exquisite the surgery, no matter how beautiful the suturing, a cadaver is still a dead body. And any remaining significance in the provisions of the Outer Space Treaty pale in the illumination of what was hoped for by Article

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4, and what in fact has transpired. The following score sheet for successful military space payloads just between 1957 and 1975 for the Soviet Union and the United States, alone, is exemplary, if not impressive:

MILITARY PAYLOAD (17)	U.S.S.R.	U.S.A.
Military Recoverable Observation	328	220
Minor Military (Environmental Monitoring Radar Calibration, Electronic Ferret)	94	90
ELINT, FERRET (Satellite Picks Up Electronic Signal, Communications, and Radar Intelligence)	42	0
Navigation and Geodesy	46	31
Military Communications, Store-Dump	128	0
Early Warning Satellites (Senses and Transmits Electromagnetic Signals of Nuclear Explosions or Missile Launchings)	7	33
Fractional Orbit Bombardment Systems (FOBS)	18	0
Ocean Surveillance	12	0
Inspector Targets	9	0
Inspector Destructors (Hunter-Killer Anti-Satellite Satellites)	7	0
Orbital Launching Platforms	135	0
TOTAL	826	220

Priority work in the United States on such military items as the militarily tactical and logistical space shuttle, directed-energy weapons, (18) hunter-killer satellites and anti-satellite satellites, (19) beam-control laser systems, (20) and the like, imply fairly directly, as asserted by former Director of the U.S. Arms Control and Disarmament Agency, Paul C. Warnke, "that we could have war in space within a decade unless we devise a treaty that will stop it." (21) That has been tried in the Outer Space Treaty of 1967 . . . and it failed miserably. Perhaps space law as it is, or is becoming today, can offer cues, if not clues, about effective control of hostile, offensive weapons in space.

Space Law as It Is Today

If, as concluded above, the Outer Space Treaty, as it relates to prohibition of certain militaristic activities in space, is a dead embodiment of earlier principle envisaging the peaceful movement of man into space, how do we attempt to avoid exacerbating the militarization of space in the future? Clarion euphemisms in space treaties do not work. Military posturings and trade-off on Earth obviously are not effective sanctions. Diplomatic double-dealing with the public's image of what is going on in space apparently is self-destructive.

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The new Moon Treaty (22) surprisingly helps us to isolate the problem and suggests its resolution through the cultivation of a new set of space laws. The National Aeronautics and Space Act and certain policies and activities embraced by NASA also help to reveal the problem raised by the growth of space militarization.

Much already has been written about the Moon Treaty and what it does, and does not, permit or prohibit. The purpose of the present discussion is simply to trace a principal problem, or the perception of one, for private free enterprise and the inducement of large sums of long-term private risk capital investment in space exploitation. It is difficult to believe that Congress, which has appropriated tens of billions of dollars for the Federal Government to open up space with sophisticated technology, does not intend the traditional private enterprise system to benefit from, and participate in, the development of the capabilities created by the Government's R&D and exploration.

The operative words in the Moon Treaty relating to private, free enterprise participation in space are "use" and "exploitation." There is a definite distinction. Government and private or public organizations can "use" lunar and other resources covered by the Treaty as part of research to determine whether "exploitation" is feasible. At the point of feasibility, the management and disposition of these resources and "the profits" would be subject to the management and disposition jurisdiction of the so-called "international regime" referred to in Article XI of the Treaty. (23) Presumably, like the Seabed Treaty's international regime, called *The Enterprise*, the international regime of the Space Treaty was to derive its authority from a one-country-one-vote principle.

Apparently, a number of Third World countries were adamantly insistent that a total moratorium be placed on all "use" (scientific as well as industrial exploitation) until the proposed international regime to govern "exploitation" had actually been established. This insistence was dropped in order to reach a consensus of the parties on a unified treaty text.

But the ultimate result of limiting research and the use of extraterrestrial resources to the point where exploitation becomes feasible is to discourage any significant investment by private enterprise. Business undertakes research with the ultimate objective of a profit-reward, and any provision of applicable law so ambivalent regarding ownership rights over exploited

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resources is no inducement for the investment of private capital. Few businesses are left that carry out activities of a strictly basic research nature, that are intended to be non-profit-making from the outset.

Let us assume that private industry is eliminated as a participant in space exploitation. The only real incentive, then, for the United States to explore and "exploit" space beyond the relatively limited civilian interests of the National Aeronautics and Space Administration would be for military purposes. And as discussed above, space already is assuming an aggressive — perhaps even hostile — military complexion at a frightening pace, even without prohibiting non-military private industry from competing for natural resources in space.

It is reasonable to assume that the requirement to negotiate a new international regime under the Moon Treaty to cover 1) ownership rights and procedures for exploiting natural resources, and 2) disposition of profits, but not necessarily losses, would deter any significant R&D efforts by industrialists and non-socialist countries. It might be acceptable, perhaps, but only if the U.S. Government (i.e., NASA/DOD) is paying for the R&D to the exclusion of the private sector. What business management would invest in the kind of venture requiring payment of very large up-front feasibility costs and allowing exploitation by competitors if it works? Substantial "directors and officers liability insurance" would have to be available before any prudent corporate officer and legal counsel would advise investment of substantial assets in such a venture.

But perhaps the Federal Government, at least those interests represented by the National Aeronautics and Space Administration, wishes to develop its own entrepreneureal capabilities in space exploitation; and NASA's civilian program continues to be inextricably involved with, and supported by, the Department of Defense. And assume that within the context of a bureaucracy of civil servants and contract-dependent major industries, there is a vested interest of NASA's civil servants and aerospace industry officials in cornering the space exploitation market through ownership, management, and operation of the space transportation system, particularly the shuttle component. It would then be in the best interests of the United States government to ratify the Moon Treaty and eliminate private enterprise competition by corporations under their

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control. A quick look at certain NASA activities and policies at least indicates that scenario possibility might exist, along with the potential for abusive governmental policies and discouragement, if not repression, of direct private risk capital investment in the ownership, management, and operation of segments on all of the U.S. space transportation system, so vital to space exploitation and industrialization.

Prior to March 1977, officials of NASA requested the Federal Aviation Administration to render a legal opinion that would determine whether the space shuttle fell within the definition of "aircraft" as that term is used in the Federal Aviation Act of 1958, as amended. (25) The 1977 opinion, in the form of a letter from the Chief Counsel of the FAA to S. Neil Hosenball, NASA General Counsel, (26) successfully defined the shuttle right out of the airworthiness, operational, navigational, and economic regulations promulgated by the Federal Aviation Administration and the Civil Aeronautics Board. (27) NASA believed it was now unencumbered by any extrinsic civilian regulatory authority, (28) and the only real concern remaining was whether NASA was prohibited by its own enabling legislation and other related statutes from entering into routine commercial operations with the Space Shuttle.

In a legal memorandum from NASA's Deputy General Counsel to the General Counsel, it was determined that there was no need for any substantive amendments to its enabling legislation for NASA to undertake routine operations of the shuttle and other components and services of the overall space transportation system. (29) NASA has continued to function, indeed expand, its shuttle operational plans, on the strength of that opinion. As seen from the history of the NASA Act of 1958, the Congress, has stated that authorized NASA activities do not include owning and operating a "spaceline." Rather it includes "scientific discovery and research not directly related to travel in outer space, and the development of resources which may be discovered in outer space." (30) Put somewhat differently, the Congress permitted NASA to undertake routine space transportation system operations, but only for non-commercial and non-competitive research and development.

NASA is not limiting its operation of the shuttle at all. A 1978 management and operations organization study proposal submitted to Johnson Space Center by McKinsey & Company, Inc., and accepted by NASA, makes it clear that the operational

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centers of NASA are looking to conduct space shuttle operations like a competitive, profit-making airline. (31) At the writing of this paper, the final study by McKinsey was apparently not finished and certainly unavailable to the public. Further, the only evaluative study done for NASA to determine all the viable alternatives for managing and operating a space transportation system summarily discarded the private sector as essentially not being interested, without the know-how, and lacking the critical funding. (32)

In addition to the reorganization of NASA's space shuttle office into two separate offices, i.e., one for shuttle acquisitions and one for shuttle operations, thereby taking on an even greater appearance of commercial permanence, NASA also has pursued an astronaut selection and training procedure which ties it even closer to the military in its "shuttle for hire" operations. Only after an asserted interest by the Department of Defense in an independent shuttle capability, and a growing public disenchantment with the total military dominance of the astronaut corps, did NASA recently establish two registers for astronaut selection and training; one for civilians, and one for military personnel. (33)

Given these indications of NASA's prevailing policy regarding the shuttle, and given NASA's on-going and symbiotic relationship with the Department of Defense, a safe presumption is that the U.S. space transportation system at present is being designed for exclusive ownership, management, and operational control by the Government. And it is clearly reflected in international and domestic space law, as it was, and as it now is. If private free enterprise is to assume an exploitative role in space development, as it obviously was intended by the Congress to do, thereby counterbalancing at least in part the present precipitous rate of space militarization, what ought space law be to permit, encourage, and cultivate the playing out of that role and task?

Proposals for Future Space Law

If we accept that space law embodied in treaties should not dictate domestic economic theory; that prefatory statements of transcending principles of international cooperation in peaceful space exploration and exploitation should not be confused with political reality; and that a strong, independent civilian presence in space exploitation and industrialization is critical to reasonable

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restraints on the pace of space militarization, then we must look at alternatives to the present governmental drift into a space industrialization monopoly and the self-serving governmental support of multi-national treaties that tend to protect that monopoly. Pragmatic business law is what should shape the character and complexion of space law over the next 15-20 years; not self-deceptive and benign assertions of responsibility owed by one political economic system to another.

It is easy, almost habitual even among the countries pursuing private enterprise economics, to look to taxation and the central government to fund (and, therefore, own, manage, and operate) those activities in space requiring inordinately large sums of risk capital, such as is necessary for the critical manned space transportation system. But look at some of the alternatives that in fact are available.

(1) NASA ownership and management of the space transportation system (STS);

(2) NASA ownership of the STS with management contracts to private firms;

(3) Joint venture between NASA and private firms for ownership and operation of an aerospace transport system, but with domestic participants only;

(4) Market organization of an aerospace transport system with the public sector excluded from both ownership and management;

(5) Market organization of an aerospace transport system with the public and private sectors included, but with domestic participants only;

(6) Market organization of an aerospace transport system with the public and private sectors included, as well as both domestic and international participants; and

(7) Market organization of an earth space transport system with the public and private sectors included, as well as both domestic and international participants. (34)

In the practical evolution of any of the suggested alternatives, or modifications of them, the following issues and questions are exemplary of those that must be addressed and resolved:

– What are the present legal impediments to the private purchase of shuttle orbiters?

– Could a private owner of a shuttle contract with NASA to provide operational and/or management services?

– Would NASA provide a public service function similar to

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the air traffic control function of the Federal Aviation Administration?

– Would NASA become involved in the certification of privately owned aerospace vehicles?

– What type of enabling legislation would be necessary, if any, for private ownership and operations of a shuttle orbiter and support systems?

– Would a private owner have to meet all legal requirements for common carrier status? Should NASA have to satisfy those requirements if it competes with private shuttle ownership?

– What would be the legal and political impact of a privately owned intermodal space transportation system on technology transfer, balance of trade, energy independence, and upon public international organizations such as ICAO, ITU, INTELSAT, and the like?

– How can a private space transportation system ensure commercial and scientific pursuits strictly for peaceful purposes, and still remain sensitive to the militarily strategic importance of space for the defense of freedom?

– What would be the legally permissive corporate structures for any or all of the space transportation alternatives?

Taking into consideration the realities (as they are, and not as we would have them) of international politics, financing, multinational corporate trends, inflation, economic destabilization, energy and technology interdependence, aggression and defense needs, both on Earth and in near space, it seems that space law as it was practiced and is now being pursued, is not sensitive to ideological dictates. It is therefore necessary that space lawmakers should stand back for a moment from these pressures and take a detached look at the overall pattern of alternatives and issues, as indicated above, if we are to see the emergence of a truly functional body of space laws.

FOOTNOTES

(1) Formally, the Outer Space Treaty of 1967 is cited as The Treaty on Principles Governing The Activities of States in The Exploration and Use of Outer Space, Including The Moon and Other Celestial Bodies, done Jan. 27, 1967, 18 U.S.T. 2410, T.I.A.S. No. 6347, 610 U.N.T.S. 205.

(2) See, specifically, U.N. Doc. A/Res. 1721 (XVI) (Jan. 3, 1962). For the follow-up Declaration of Legal Principles Governing The Activities of States in The Exploration and Use of Outer Space, see U.N. Doc. A/Res. 1962 (XVIII) (Dec. 24, 1963).

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(3) "Statements by Presidents of the United States on International Cooperation in Space — A Chronology: October 1957-August 1971." Committee on Aeronautical and Space Sciences, U.S. Senate; 92d Cong., 1st Sess., Doc. 92-40, p. 5 (Sept. 24, 1971). For a history of the U.S. IGY satellite program, see Green, C. McL., and M. Lomask, *Vanguard — A History* (Wash. D.C.; NASA Historical Series, SP-4202, 1970).

(4) *Public Papers of the Presidents, Dwight D. Eisenhower*, 1955, pp. 715-716 (Wash. D.C., 1959).

(5) Ibid, Eisenhower 1957, at p. 635. This remark was part of a statement by President Eisenhower on August 28, 1957, after the Soviet Union denounced the good faith of U.S. disarmament proposals being discussed by the Western allies in London.

(6) Ibid, Eisenhower 1958, p. 82. Jan. 13, 1958 letter from President Eisenhower to Nikolai Bulganin, then Chairman, Council of Ministers, U.S.S.R.

(7) February 15, 1958 letter to Soviet Premier Bulganin. Ibid,, Eisenhower 1958, p. 155.

(8) Eisenhower, Waging Peace, 1956-61, p. 210 (1965). The statement is in reference to a discussion President Eisenhower was having with then Deputy Secretary of Defense Donald Quarles regarding the Soviet Sputnik launched October 4, 1957.

(9) *Public Papers of the President, Dwight D. Eisenhower*, 1959, p. 771 (1959).

(10) Op. cit., *supra* Note 8, at p. 257.

(11) 42 U.S.C. 2451 *et seq.*, 72 Stat. 426.

(12) Article 4 of the Outer Space Treaty of 1967 is the primary provision directed at the role of military activities in space. Negotiators of the Treaty did not foreclose non-aggressive, non-hostile, military activities and personnel in space, but did try to proscribe nuclear weaponry and weapons of mass destruction according to the then existing state of the art. Advancing capabilities have brought increasing legal interpretations of Article 4 that would support new military capabilities in space which, in this writer's view, are so limited in purpose and so thinly disguised — if disguised at all — in latent aggressive military action, that they are clearly flagrant breaches of the patent spirit and intent of Article 4. That provision asserts in pertinent part, that "State parties to the Treaty undertake not to place in orbit around the earth any object carrying nuclear weapons or any other kinds of weapons of mass destruction, install such weapons on celestial bodies, or station such weapons in outer space in any other manner . . . [T]he testing of any type of weapons . . . on celestial bodies shall be forbidden."
A non-militaristic transgression of the spirit and intent of the Outer Space Treaty is the so-called "Declaration of Bogota," signed on December 3, 1976 by Brazil, Colombia, Congo, Ecuador, Indonesia, Kenya, Uganda, and Zaire, and asserting that geostationary orbits are scarce natural resources subject to the sovereignty of the subjacent Equatorial countries.

(13) 42 U.S.C. 2451(a).

(14) The May 7, 1966 statement of President Lyndon B. Johnson was read in San Antonio, Texas. See Dept. of State Bull., June 6, 1966, at p. 900.

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(15) Text of the Goldberg letter of May 9, 1966, appears in U.S./U.N. press release 4851.

(16) Mr. Gromyko's statement appears in U.N. Doc. A/6341, May 31, 1966.

(17) This chart of Successful Military Payloads between 1957 and 1975 for the U.S.S.R. and the U.S. appears in Glenn and Robinson, Space Trek: The Endless Migration 163 (1978). The authors report the data source to be the Staff Report, Committee on Aeronautical and Space Sciences, U.S. Senate, by Charles S. Sheldon II, CRS Library of Congress. They also state that "the National Security Council and the Pentagon note there is a mistake in this table, but they are unable to supply clarification."

(18) For a discussion of directed-energy weapons, see Bell, T.E., "America's Other Space Program," 19 The Sciences, No. 10, p. 12 (December 1979).

(19) Ibid, p. 11.

(20) For a discussion of the state of development and use of this space weapon, see "The New Military Race in Space." Business Week; June 4, 1979, at pp. 136-39, 142, 145, and 149.

(21) Ibid., p. 136.

(22) For the draft unified text of The Agreement Governing The Activities of States on The Moon and Other Celestial Bodies (referred to informally as the "Moon Treaty") see U.N. Doc. A/AC 105 L. 112 Add. 4 (1979).

(23) Article XI, para. 5, of the Moon Treaty provides in part that "States parties to this agreement hereby undertake to establish an international regime, including appropriate procedures to govern the exploitation of the natural resources of the Moon as such exploitation is about to become feasible . . . ."

(24) For an excellent comparison of the Seabed Treaty provisions with the Moon Treaty, including a comparison of The Enterprise of the Seabed Treaty and the international regime of the Moon Treaty, see Statement of Leigh S. Ratiner on Behalf of The L-5 Society, before the Subcommittee on Space Science and Applications of the Committee on Science and Technology, U.S. House of Representatives (Sept. 6,

(25) Federal Aviation Act of 1958, as amended, 49 U.S.C. 1301 *et seq.*

(26) The letter from the Chief Counsel of the FAA to Mr. Hosenball was dated March 11, 1977 (copy on file in Office of Chief Counsel, FAA, and Office of General Counsel, NASA).

(27) The request for the determination of whether the space shuttle would be included under the definition of "aircraft" in the Federal Aviation Act of 1958 came substantially before airline deregulation was implemented and the CAB sunset provision was established. The Civil Aeronautics Act of 1938 created the Civil Aeronautics Board; the functions of which were subsequently incorporated into the Federal Aviation Act of 1958. These functions were then again transferred to the Department of Transportation in 1966 by P.L. 89-670.

(28) For a detailed discussion of NASA's apparent efforts to isolate development and operation of the space transportation system strictly under NASA jurisdiction (and particularly the shuttle component), see, generally, Robinson, G., "Private Management and Operation of the Space

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Shuttle: Some Legal Problems Related to Market Entry" to be published in 2 Akron L. Rev. No. 1 Fall 1979 – yet to be published, page numbers are unavailable at this writing.)

(29) Aug. 18, 1977 Memorandum, from NASA Deputy General Counsel Gerald J. Mossinghoff to General Counsel S. Neil Hosenball: In Space Transportation System, Hearings (Including Report), before the Subcommittee on Space Science and Applications of the Commitee on Science and Technology, U.S. House of Reps., 95th Cong. 1st Sess., May 17, 18, 1977, No. 19, pp. 610-661.

(30) For the legislative history and purpose of the National Aeronautics and Space Act of 1958, as amended (P.L. 85-568), see 1958 U.S. Code Cong. and Admin. News, P. 3160.

(31) See, therefore, McKinsey & Company, Inc., "Organizing for Effective STS Operations, Volume 1 – Technical and Management Proposal," Submitted Oct. 9, 1978 in response to NASA, Johnson Space Center, RFP No. 9-BC241-A03-8-26P. Following are quotes from the proposal that reflect NASA's shuttle operational and management philosophy: "Johnson Space Center . . . is seeking management counsel . . . to perform its role as lead center in the operation of the Space Transportation System (STS) program . . . [I]t is entering an era of service to users in the exploitation of these [new space] benefits. R&D will remain a very important part of NASA's work, but it will no longer enjoy the concentration of resources and attention that it has had up to now . . . [I]t will be involved increasingly in the performance of routine services . . . [a]nd it will be increasingly responsive to the needs and requirements of other organizations that use its services."

(32) U.S. Space Transportation in the 1980s: Organizational Alternatives; study prepared by the National Academy of Public Administration, Wash. D.C. (1977).

(33) For a proposed establishment of separate rosters for civilian and military applicants from which astronauts will be selected, see 44 FR No. 120, pp. 36024-36025 (Wed., June 20, 1979). See, also, Robinson, G., "Space Industrialization and the Legal Status of Astronauts: Start of a Jurisdictional Head-Scratcher," Houston J. Int'l Law 501-510 (1979); and "Memorandum of Understanding Between The Department of Defense, The Army, The Navy, and The Air Force, and The National Aeronautics and Space Administration Concerning the Detailing of Military Personnel for Service as Shuttle Crew Members" (1976), on file in Office of General Counsel, NASA.

(34) For a discussion of alternatives to governmental ownership, management, and operational control of space transportation systems in non-socialist nations, see by Good, W.A., Robinson, G.S., Shakun, M.F., and E.F. Sudit, "Structuring the International Marketplace for Maximum Socio-Economic Benefits from Space Industrialization"; paper presented at the Ninth Int'l Symp. on Space Econom. and Benefits, Int'l Acad. Astro., 30th Int'l Astro. Cong., Int'l Astro. Fed., Deutsches Museum, Munich, FRG (Sept. 16-22, 1979).

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PRICES AND INCOMES POLICY OPTIONS: PROBLEMS ARISING FROM THE BRITISH EXPERIENCE

By Eamonn Butler

Throughout history, attempts have been made by governments to control inflation or at least to modify its impact, by the imposition of wage and price controls. As recently as October 1978, President Carter announced a policy which he hoped would limit the rise in the Consumer Price Index to 5.75 percent in the succeeding year. The U.S. Administration's guidelines were complex, but set absolute maxima of 7 percent on wage increases and 9.5 percent on prices. Yet there was immediate protest from many sides, such as the labor unions,(1) and it was plainly becoming more and more difficult to adhere to the policy as time went on. Economists who had established their positions for (2) or against controls (3) now took their debate to the mass communications media. (4) Underlying the debate was the widespread feeling that voluntary controls were insufficient to stem increases in wages and prices. The questions now raised are whether statutory controls are more efficient, and whether they would be politically feasible anyway. In this environment, it is not surprising that the U.S. Administration might look towards non-statutory methods of control with more bite than a straightforward voluntary agreement.

A voluntary set of guidelines backed up by non-statutory guidelines is, however, nothing new. In Britain, such a system operated until abolished by the Conservative government which came to power in May 1979. Clearly it is worth an examination of this control system, to see whether it suggests any policy options – or warnings – in respect of the American economy.

Britain's Experience of Controls

It is unwise to generalise too enthusiastically from one country to another before establishing that they are truly analogous. A survey of the wage and price policies in Britain should suffice to show that the experience of controls is, in fact, remarkably similar and has been so for two decades.

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Wage controls

In mid-1961, the British government countered a large increase in wages around the country by the announcement of a 'pay pause' on increases in wages, salaries and even dividends. In February 1962, a White Paper (government policy document) was published, (5) which was intended to convert the pay pause into a lasting form of incomes policy. A 'guiding light' of 2-2½ percent average increase in wage and salary increases, based on a trend analysis of past productivity figures, was set. To this extent the policy was remarkably similar to the wage-price guideposts introduced in the United States a year earlier. But in Britain, circumstances conspired to obscure a 'guiding light' based on past trends. The National Economic Development Council reported that a future rate of increase in productivity of 3¼ percent could be attained. If this were so, it was felt that 3-3½ percent would be more appropriate a target figure than 2-2½ percent, and the National Incomes Commission, a pay-claim review agency, confirmed this view officially.

The election of a Labour Party government brought a new approach to incomes policy in April 1965. (6) Using once again *projections* for future productivity, a norm of 3-3½ percent was set. Increases over the norm would have to be balanced by increases below the norm to maintain the overall trend in line with the productivity estimates. Three of the conditions under which a higher than average settlement could be permitted were essentially similar to the 1962 criteria for movement above the norm; these related to increased output per worker in an enterprise, manpower shortages, and differences in payment for comparable work. To these, the Labour government added an exception providing for larger increases to lower paid workers. Another innovation was to tie wage controls much more closely to prices policy, which will be outlined below.

On the incomes front, however, the experience of the United Kingdom had been very close to that in the United States. David Smith commented:

> "Both the criteria for wages and salaries, as they were announced in 1962 and modified in 1965, and the criteria for prices bore a striking resemblance to the wage-price guideposts announced in the United States in 1962. In both countries the appropriate movement of average earnings was linked to a trend in national productivity; in

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the United Kingdom the trend was based on a projection, and in the United States on an average of past changes in productivity. Exceptions to these norms were to be justified by productivity, labor shortage, or low wage considerations. The British criteria added another exception for cases in which it was generally recognized to be in the national interest for the pay of a group of workers to be in line with remuneration for similar work. Also, in both countries, increases and decreases in individual prices were to depend on changes in output per employee in relation to the national average, on changes in nonlabor costs, and on the ability to attract capital."(7)

From April 1965 until June 1966, these guidelines operated on a voluntary basis, although agreement did not come easily. The 1966 sterling crisis, however, brought forth a statutory policy, with a six-month freeze on wages and strict controls on prices, followed by a further six months of 'severe restraint.' During this latter period, the criteria adopted in 1965 were brought back into play, but were interpreted much more closely than before. The serious economic situation was cited as a reason for setting no pay increase norms, although its demise was something of a relief to the government, since the norm had by then come to be taken as a minimum and not an average, since most groups at the bargaining table thought their own claims to be more legitimate than the average. (8) Other elements of the policy were intended to help the slow-down; new negotiations over pay and hours were to take place at a minimum period of a year since the last round; justified increases were to be awarded in stages; there was to be no compensation for income lost during the six month freeze. Restraints were also put upon price increases.

In March 1968 came a new statutory initiative with the passing of the Price and Incomes Act, which followed another sterling crisis and devaluation in November 1977. While setting new controls on prices, the government affirmed its faith in a ceiling of 3½ percent on incomes. Yet the powerful unions had already wrought substantial legal privileges from the Labour government in exchange for their adherence to voluntary policies over the previous few years, and found themselves in a position to circumvent this new attempt at control. (9) By the end of 1969, the government had approved several pay settle-

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ments above the norm in the public sector, and in the words of the Confederation of British Industry, "appeared to have abandoned its policies." (10) New policies were being shaped when the government was defeated in the general election of 1970.

The Conservative Party, under Edward Heath, came to office committed to oppose wage and price controls and to abolish the National Board for Prices and Incomes which had institutionalized the policies of the late sixties. Within a year, however, the government found that prices were rising at a disturbingly high rate (which is now accepted as being the consequence of too rapid a stimulation of the economy and a substantial increase in monetary aggregates). Employers were calling for a new agreement with the unions. Unions were complaining about prices. Eventually in 1972, the Conservative government felt compelled to introduce legislation on incomes and prices policy.

Once again, there was a remarkable closeness between these controls and the Nixon Administration's policy following 1971. Nixon's 'Phases' became Britain's 'Stages', which were longer and supplemented by an extra one, but the general policy of a Stage 1 freeze for six months, followed by gradual relaxation, was similar. The statutory policy continued until the defeat of the Conservatives in 1974. The freeze was followed by Stage 2 pay limits of £1 per week plus 4 percent (to favour the lower paid), and after November 1973, this was eased to 7 percent or £2.25 per week, whichever was greater. This policy inspired little confidence, however, because prices and wage demands continued to rise at record levels, and the policy was brought to a swift end when the government were defeated in a confrontation with the powerful miners' union in February 1974. From then, the controls became voluntary. The Labour government entered into a 'solemn and binding' but unwritten agreement with the Trades Union Congress to cooperate in voluntary wage restraint. This 'Social Contract' itself came under strain very quickly; the unions wanted to make up for their losses under the previous government, and earnings rose by 21 percent in 1974, and 30 percent in 1975, compared with 13 percent under the last year of statutory controls.

Gradually, inflation subsided from its peak of over 28 percent, but this was probably due more to the government's adherence to strict fiscal and monetary guidelines than to the

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Social Contract. Yet the rate of increase of prices was still high; and in mid-1977, a new, rigid policy was adopted with an across-the-board limit on pay awards, backed up by the threat of government economic sanctions against companies which conceded to higher claims. This was a new and innovative development in pay policy, and is perhaps instructive for the current American situation. Previously in Britain, governments had tried a rigid freeze, followed by gradual relaxation. The Labour government of 1974-9 was the only one which began with voluntary controls and then discovered that it had to toughen its policy. The similarity with the Carter Administration is plain, and accordingly the British experience with these economic sanctions will be examined in greater detail below.

Prices policy

Much of this continuing attempt to reduce the pressure of wage demands has been pegged to prices policy, since it is the level of prices, and not of wages, which was the real object of the policy instruments. The 1962 policy contained little emphasis on prices, but the new Labour government, in its incomes policy of 1965, placed much more emphasis on the role of price increases in prompting further wage demands. Accordingly, in the policy of 1966, prices were to be held constant for the most part, and control was based on the voluntary cooperation of businesses and unions in prenotifying increases in prices to the government. The policy, which was first spelt out in the White Paper of April 1965, specified a number of criteria upon which individual price rises were acceptable. These were situations in which the enterprise was faced with unavoidable costs in wages, materials or capital which could not be offset by increased productivity or by the company's own efforts; or, if having made such efforts, the company was still unable to attract sufficient capital to meet home and overseas demand.(11)

Although a voluntary policy, it was given official status by the creation of the National Board for Prices and Incomes, to which the government could refer price increase proposals at its discretion. This agency went through several metamorphoses. Until the sterling crisis of 1966, the NBPI carried no legal force; then came the freeze and period of 'severe restraint' on wages and prices. From July 1967 to March 1968, a 'period of moderation' as it was called by the government returned prices

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and incomes policy once again to the voluntary side, although it should be noted that any prenotified price increase could be delayed for over six months while investigations by government and the NBPI were undertaken, and if the NBPI recommended a restraint upon the individual price. The 1968 Prices and Incomes Act gave the government increased powers to stall prenotified price increases, and even to *reduce* prices upon recommendation by the NBPI. Like its equivalent on pay, this policy proved remarkably difficult to enforce.

The Heath government took its lesson from the United States when it established a single agency to which policing and control of prices were entrusted, called the Price Commission. This was a little different from the American Price Commission and the Cost of Living Council, since the latter were subordinate law-making bodies with the power to make regulations having the force of law. The British system required Parliament to agree to any proposed changes in the Price Code, making the system much more cumbersome.

The Price Code was detailed and rigid. In its final 1976 form, it contained some 150 clauses and a further 130 pages of explanation. It worked in two ways. Firstly, the Code limited the net profit margin of all enterprises to its historic level made in the twelve months before April 1973. If the net margin exceeded this level, then price reductions were ordered or proposed price increases prenotified to the Commission were held up. Initially, prenotification was required from only the largest companies, but by November 1973, medium-sized companies were also required to prenotify. Secondly, an overall gross margin limit was imposed on distributors, and prices from manufacturing or service companies were to be allowed only to the extent that they could be justified by certain specified 'allowable' cost increases which could not be absorbed by the enterprise. Needless to say, these controls were very unpopular with business and with investors, since any net increase in productivity made by a firm as a result of capital investment or reorganization would have to be met by a *reduction* in prices to redress the profit margin to its historic level. This would mean a lower absolute level of profits in many cases, and this was hardly a spur to new investment, and had a depressive effect on the normal expansion of profit margins during the rise of the business cycle, reducing the expansionary effect of the govern-

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ment's other stimulative policies. Other 'allowable cost' rules seemed somewhat arbitrary. In 1973, for instance, only one-half of any increase in wages could be passed on to consumers as an allowable cost, although this was increased to 80 percent in 1974 and finally abolished in July of 1976.

It is certainly true that Britain's unfortunate experience with these controls set British politicians, economists and electors more firmly against them than their American counterparts, although some of those who were trying to maintain wage and price controls in the United States did experience a similar disappointment in their efforts. (12) In Britain, however, the controls had an obvious effect on profitability — the Price Commission estimated that the allowable cost rules had depressed profits by between £3,500 million and £8,000 million (13) — and little effect on prices. Even the Chairman of the Commission until 1977, Sir Arthur (now Lord) Cockfield, concluded that the record of the Commission in controlling prices was "a bitter disappointment." (14) The Commission frankly admitted that "the best estimate we can make is that, at the peak, price control reduced prices by 3 or 4 percent . . ." (15) even though retail prices rose by more than 100 percent over the duration of the Pay Code. In fact, because of the distortions in investment and other economic activity which were unforeseen consequences of the Code, (16) there was a decline in competition and an upward pressure on prices at the same time that the Commission was attempting to keep prices down.

With the failure of this system came the most recent phase in Britain's attempts at price control. The Price Commission Act of 1977 retained the Commission without the rigidity of a Price Code, so that a discretionary, rather than a general pricing policy, came into effect. This 'investigatory system' allowed the Commission to engage in two kinds of enquiry. Investigations could be made into prenotified price increases in the case of the larger companies, or into actual price increases by others, or into the margins of distribution companies. Alternatively, at the request of the government, the Commission could make a 'sector' inquiry into the pricing policies of a large section of industry or particular trade. Any prenotified price increase was frozen for up to four months pending the Commission's report, unless the Commission specifically exempted it, and at the end

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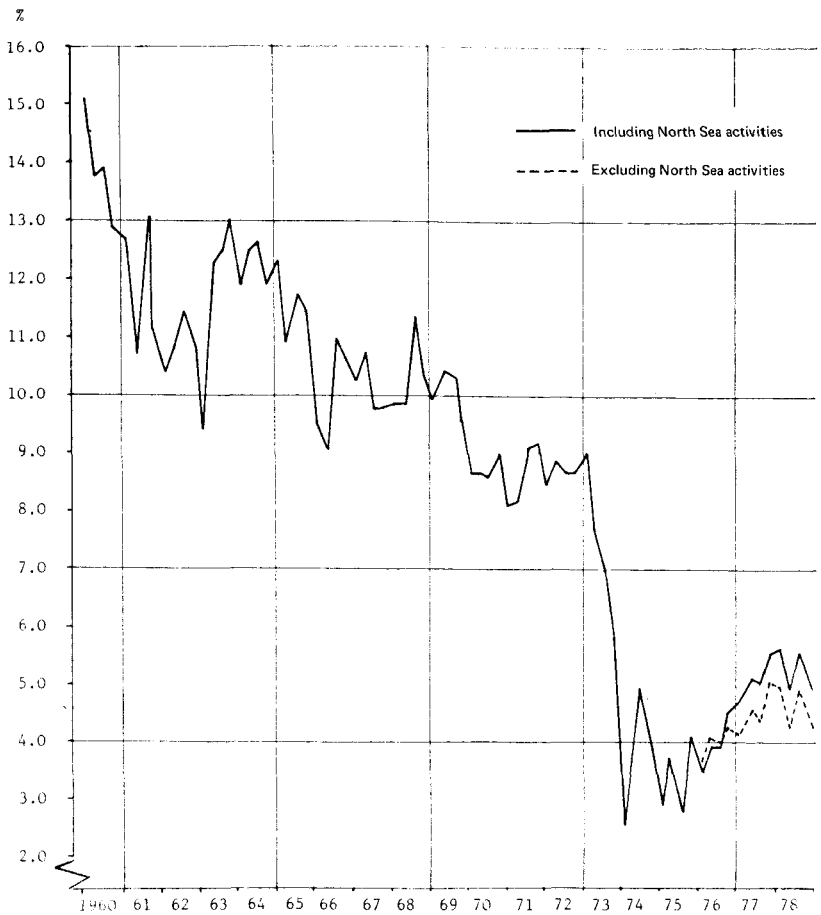
INDUSTRIAL AND COMMERCIAL COMPANIES REAL PRE-RATE OF RETURN (SEASONALLY ADJUSTED)



Source: Derived from National Income and Expenditure 'Blue Books' and CSO statistics.

Notes: Gross trading profits plus rent less stock appreciation less capital consumption at current replacement cost as a percentage of net fixed capital stock at current replacement cost plus book value of stocks.

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of that period, the Commission could recommend the government to freeze the price increase for a further nine months. After conducting a sector enquiry, the Commission had the power to recommend a reduction in prices for a period of up to one year, and parliamentary approval could be sought to extend the freeze or reduction for a longer period. Eventually, the incoming Conservative government of 1979 announced the abolition of the Commission within a few days of taking office.

The implementation of the policies

From this survey it can be seen that Britain has not found it possible to adhere to any fixed set of wage or price limits or of criteria to justify increases in wages or prices. Given that Britain has been coping with higher rates of inflation, her people have been able to draw much less confidence about the effect of controls, but the problem of maintaining limits has hit successive administrations in the United States almost as much.

Like the United States, Britain has been best able to maintain controls at a time of crisis, when the need for 'pulling together' was widely perceived; but it has been difficult in both countries to maintain the policy in a coherent form much past a six-month freeze or a twelve-month period of restraint. The 1962 criteria in Britain had been circumvented by negotiations to shorten hours and to increase paid holidays, and by more frequent negotiations about pay. The norm was quickly perceived as an average, and pressure mounted for earnings increases to be related to the cost of living. After the freeze of 1966, unions attempted to make up what they perceived as earnings increases lost through the statutory controls, and the 'period of severe restraint' was moderated to a 'period of moderation.' Strike threats by major public sector unions caused the emphasis to be shifted from wages to prices, with the rest of the policy being gradually eased into cold storage.

While the success of controls in the 1940's and 1950's are often seen as a source of success by economists including Phillips and Lipsey, (17) tests show that there has been less cause of congratulation in the last two decades. Work by Brechling, using quarterly equations for the rate of increase of wage rates, found evidence that controls may have reduced wage increases by up to 2 percent in 1964-5, although equations for the rates of increase of wholesale prices and the GNP implicit price deflator

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reveal no significant impact of incomes policies up to 1965.(18) Yet it must be remembered that Britain in the sixties experienced considerable wage drift, so it is possible that earnings were not depressed as far as the wage rate data would suggest.

It is difficult to apply the same sort of analysis to the data from the 1973 series of controls, since the background rate of inflation was so large. Statutory and voluntary controls existed together with the greatest rate of increase in the retail price index that Britain had ever known.

TABLE 1

Inflation in Britain, 1970-78

Year	% increase in the RPI in June over previous year
1970	5.9
1971	10.3
1972	6.1
1973	9.3
1974	16.5
1976	26.1
1977	17.7
1978	7.4

Source: *Winning the battle against inflation*: Supplement to the Economic Progress Report, August, 1978, H. M. Treasury

Businesses during this period evolved their own methods for circumventing price controls. Thus old products were made 'new' products by subtle changes in packaging, weight, or style, so that prices could be raised without attracting the notice of the Commission. Another ingenious development was that of the 'list price', which with the subsidence of the inflation has now almost entirely disappeared. Businesses would set 'list prices,' the prices which appeared on their published catalogues (although the usual practice was to publish prices separately to avoid frequent catalogue reprinting) at an artificially high level. This price was the one which would be subject to control. Then,

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the firm would offer a 'discount' to consumers. The actual price charged thus bore no relation to the – controlled – 'list price.' This was but one of the mechanisms devised to beat the controls. On the wage side, there were regular innovations, many coming to the relief of government, for avoiding the set limits.

We have already noted the effect of those controls on profitability and the pattern of investment. The real pre-rate of return for industrial and commercial companies, seasonally adjusted, plummeted from around 9 percent in 1972 to under 3 percent in 1973, levelling off to about 4 percent in the following years. (19) No other economic factor can explain such a substantial fall. Further observations on this point will be made when we come to consider the policy options open to the U.S. Administration, below.

From this review of the British experience, it is clear that there are many guidelines to American policy. The history of the two countries has been similar in terms of the application of controls, although not of course in terms of demand management, monetary and fiscal policies. This is perhaps a reason why controls have come to be regarded in Britain as much more of a failure than they have in the United States. Yet the inflationary situation in Britain has led to the persistence of some form of controls, voluntary or otherwise, until 1979. Furthermore, Britain has experimented much more with non-statutory forms of control, ranging from simple voluntary measures to more sophisticated non-statutory sanctions, as yet untried in the United States. This recent history, and in particular the operation of sanctions and the working of the Price Commission, is worth particular attention when we come to consider the Administration's options.

Policy Options in the United States: The British Experience

In deciding its next step in counter-inflation policy, the Administration may consider the following proposals.

The continuation of voluntary policies

The British experience with voluntary prices and incomes policy is that it is eroded comparatively quickly, particularly on the incomes side. The guidelines established in 1962 were quickly adjusted under pressure, and the 'Social Contract' which was supposed to be binding but which lasted only a

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short time after 1974 was soon pronounced dead by the General Secretary of the Trades Union Congress, despite political circumstances which were threatening an electoral defeat to his colleagues in Parliament.

This rapid erosion of the Contract was not just the result of the increasing power of the unions in a critical economic situation. Rather, it was the belief among unions that the government was not living up to its promises to limit prices effectively. This concession was an inevitable one if the voluntary policy was to continue: after an initial period of restraint, wage earners demanded that their earnings should at least keep pace with the rise in prices. After all, real output and productivity were increasing, and it was believed that there was no reason why anyone should take a cut in real income in such circumstances. So great was this pressure that even the Heath government felt compelled to build special cost-of-living bonuses into its own State 2 formulation, although that government had always argued for a tougher line on wages than had Labour administrations.

Should a United States Administration decide to enforce a voluntary system of controls, it could well find itself forced to accept this kind of cost-of-living agreement in order for the policy to be approached by earners. Yet this is difficult to justify on the logic of controls themselves; for wage and price policies assume a cost-push theory of inflation whereby rising wages force higher prices and higher prices prompt greater wage demands. The impasse is ended only if one concedes that other factors, such as monetary variables and the management of demand, are powerful agents in the determination of prices; but under this view, controls are something of an irrelevance anyway. In Britain, the curbing of corporate profits has to some extent engineered a situation to the liking of the unions, where earnings were indeed outstripping prices, but it is doubtful whether American unions have the power to exert such a pressure. While in Britain, then, the cost-of-living-agreement impasse could be explained away under the need for more efficiency and lower rates of profit, it is doubtful whether this explanation would survive long in the United States.

It seems, then, that if voluntary controls are to be a feature of U.S. policy for some time, that pressure will be mounted to insert some kind of cost-of-living arrangement or productivity

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deal. But such an arrangement will be ridiculed as quite circular, making some tougher, perhaps statutory controls relatively more attractive. The attractiveness of a tough policy will be further increased by the phenomenon well known in Britain and alluded to above, namely that all norms tend to be seen as minima.

Non-statutory sanctions

To avoid the unpopularity of full-fledged statutory controls, a form of non-statutory sanctions might seem attractive. Good behaviour can be rewarded with tax concessions or with government aid and contracts, while behaviour which is contrary to the government's guidelines can be punished by the withdrawal of aid or contracts. This system has been used often before in the United States to consolidate all kinds of Administration policy.

In Britain in 1977, the government was facing the apparent failure of its Social Contract to keep down prices, and a series of criticisms, chiefly from union leaders, and in other ways was in a situation much like that facing the current Administration. It shifted the responsibility for keeping wage increases down to private business. It set across-the-board guidelines (which were gradually but unwillingly raised from eight per cent through nine and then ten percent) and announced that any company awarding larger increases would face economic sanctions in the form of withdrawal of aid or of government contracts.

In order for this to be perceived as a non-statutory attempt at prices and incomes policy, however, there could be no formal system. New government contracts contained clauses requiring the contractor to adhere to the guidelines, but no statutory mechanism of control could be devised — the working of the system relied on the discretion of the government. As a result, the government had complete discretion to interpret the guidelines and to decide who had broken them and whether sanctions should be taken; and further, there was no appeal against a government decision. While many people thought it perfectly reasonable that the government should refuse to help firms who were breaking its pay guidelines, the informality of the system led to an increasingly arbitrary and concealed use of sanctions against companies. Threats delivered verbally replaced clear, written guidelines. The 'blacklist' of companies which were

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denied contracts was kept, but its existence strenuously denied by the Prime Minister, (20) and even Members of Parliament were denied access to it. (21) Some companies did not know they had been sanctioned, or why, and since the list was informal, even those companies mistakenly included were unable to obtain any legal compensation.

A few examples will illustrate the dubious nature of this informal, non-statutory system. MacKie and Company, a shipbuilding firm in competition with the government-controlled Harland and Wolff, was denied export credit guarantees because its wage increases exceeded the government guidelines, despite the fact that it was more efficient than Harland and Wolff, and had been losing labour to them as a result of massive public subsidies to the latter. The economic dislocation caused by such cases is clear. Again, in pay discussions with the public sector miners, who had brought down the Conservative government and who were a powerful component in the Labour Party, the guidelines were put aside in favour of 'productivity deals' which allowed the net earnings per worker to rise by a total of 24 percent over the year 1977-78. (22) Lastly, the Ford Motor Company, which was the most successful automobile manufacturer in Britain, was willing to pay its workers an increase substantially above the guidelines. Concerned that intervention would lose the support of the Transport Union which represented the workforce at Fords and which was one of the most powerful supporters of the government, the Chancellor of the Exchequer backed down and allowed a 12 percent settlement to pass without discretionary action. One year later, however, Ford decided to stick to the guidelines in its next pay round, since it was clear that the government could not sustain another assault on its policies. The workers reacted with a nine-week stoppage of work, and eventually a 17 percent settlement was offered by the company, whereupon the government imposed the sanction of a total boycott of Ford products. At this point, however, the union-sponsored Labour Members of Parliament, together with the Opposition, brought a defeat to the whole sanction policy in Parliament in December 1978.

It seems likely that a similar charge of arbitrariness in government would face any attempt by any United States President to introduce a non-statutory sanctions policy, and the nature of American politics is such that this would be more difficult for

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an Administration to resist than in Britain. In addition, more militant unionism could be encouraged by the controls, as it was in Britain, where the unions saw the guidelines as something of a challenge to be tackled and a minimum basis for a settlement if the more militant unions were not to lose face. Complaints can also be expected from businesses, who will, as in Britain, find it difficult to attract labour if they are not allowed to pay sufficiently without incurring sanctions, and who will not relish their position as policing agents for the Administration, nor being made the scapegoats for any failure in the controls.

The system of sanctions could, then, be seriously considered as a solution to the gradual erosion of a voluntary control system by businesses and wage earners who perceive that restraint is to their economic detriment. The experience from Britain would seem to be unequivocal, however, that such a system is surrounded in pitfalls and is difficult or impossible to prosecute fairly.

Weak statutory controls

The next option would be a system of weak statutory controls, far from the unpopular Nixon-style controls, but having the force of law. The nearest equivalent in Britain would be the investigatory system operated by the Price Commission after 1977. It is frequently suggested that if the market behaviour of the largest firms can be controlled, then the behaviour of the other firms in the market will follow, and hence that a statutory framework of controls can be attempted without a great administrative mechanism. (23) This argument makes statutory controls attractive, but the experience from Britain would seem to be that control of the largest firms is not sufficient to alter the behaviour of others. As noted already, prenotification controls on large companies in 1973 were quickly extended to medium-sized companies, and the requirement was made for all these companies to keep careful records which could be inspected by the Price Commission. Even with this measure of control, market behaviour was difficult for the Commission to change effectively.

Profit margin controls are one example of a form of control which could be operated by an institution such as the Price Commission. The Commission's effect on profitability in Britain

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is, however, a cause for much concern. Price controls in Britain seem to have a small effect on total prices, but a serious effect on profitability, which is a small percentage of the totality of an individual price and which have been the main elements in price restraint. In the United Kingdom, a ten percent reduction in the profits of commercial and industrial enterprises would account for 0.8 percent reduction in consumer prices, which suggests a lack of wisdom in attempting to trim prices by trimming profits. Yet the policy in Britain reduced margins in several ways. During an investigation, prices were restrained; restrictions could be imposed after an investigation; oligopolistic behaviour by firms, each anxious to avoid investigations by keeping price rises down, has also trimmed profits across markets; the bureaucratic costs to companies having to deal with Commission investigations has lowered profits; and in other ways, the net effect has been depressive. The chart shows the full extent of this decline in profitability during the years of controls.

The selective, discretionary system of price controls through Price Commission activity might also have tended to depress, rather than augment, industrial efficiency in Britain. This is certainly a factor in investment, since lower prices and reduced profit margins caused many firms to reappraise their investment schedules, and the existence of the Price Commission, with its discretionary powers was a source of uncertainty which firms had to plan for instead of being able to devote all their energies to industrial performance freely. There is also a problem that an agency with powers to enforce price reductions or restrictions on one hand is faced with an uneasy partner when it attempts to suggest, on the other, improvements in efficiency to businesses. In Britain, the business view was that even where the Commission detected what it took to be serious inefficiencies, its remarks were usually inaccurate and oversimplified, and that such intervention and the squeeze on profits was not the best way to increase efficiency. (24)

Britain found other objections from business in the way that price investigations were conducted. In the first place, to establish the justifiability of a prenotified price increase, the Commission would have to have access to confidential company data, as would any consultants they chose to employ on the case, and this caused grave concern to business. In the published

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reports, information was made available to competitors about company operation and marketing strategy. Undoubtedly in any similar system proposed in the United States there will be a similar need for the government to explain its decisions, and similar protest from industry that competitors, particularly foreign competitors, are being helped. Lastly, the press coverage given to the Commission's criticisms gave a feeling of widespread incompetence in business and a lack of confidence in the market system, although this was exaggerated by the headlines. This again made it difficult for business to expand with confidence, but seems to be an inevitable feature of this form of control.

Conclusions

These, then, are the main policy instruments which the Carter Administration might consider as the next stage in its counter-inflation policy, apart from fully-fledged 1971-type controls, with which most American economists will be familiar. The British experience is that there are severe problems with all of them, and it remains open to question in political circles whether the problems are outweighed by the economic advantages.

Voluntary controls have failed to work effectively in Britain, despite a feeling of national crisis, a highly centralised pay bargaining system, and a Labour government with strong union support. Inevitably exceptions and 'special cases' have arisen — often, as in the case of nurses in Britain, with strong national support — to erode the policy, and militant unions have regarded it as something of a challenge. Non-statutory controls in the form of sanctions have had a similar demise, and have led to accusations of arbitrariness in their enforcement in addition to their being gradually eroded by special cases. Weak statutory controls of a discretionary nature have increased business uncertainty while reducing the funds available for new investment, research and development.

It will be instructive to see whether the Thatcher government will be able to live without some form of price or wage controls as its predecessor under Edward Heath promised to do in 1970 and abandoned just over a year later. The signs are that the government has the resolve to resist the use of controls, but some kind of productivity deal for public sector workers is pro-

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bably too attractive to resist.

As far as the United States is concerned, there is probably more faith in statutory controls of some kind than in Britain. Nevertheless, the similarity between the two countries in their experience with controls up to about 1976 should suggest that the recent history of controls in Britain deserves close scrutiny by American policy makers.

FOOTNOTES

(1) See, for example, the letter by George Meany to the *Washington Post*, November 3, 1978.

(2) For an extensive bibliography on this subject, see Feliz Chin and Edward Knight, *Government Policy Relating to Wages and Prices, 1974: A Selected Bibliography*. Washington, D.C.: Library of Congress Congressional Research Service, 1976.

(3) For bibliography of this kind see the Fraser Institute's *The Illusion of Wage and Price Control*. Vancouver: The Fraser Institute, 1976. See also Samuel Brittan and Peter Lilley, *The Delusion of Income Policy*, London: Maurice Temple Smith, 1976. Another useful bibliography appears in Schuettinger, Robert, and Eamonn Butler, *Forty Centuries of Wage and Price Controls*, Washington, DC: Heritage Foundation, 1979.

(4) See for example, Robert Lekachman, 'The Case for Controls' *The New Republic*, October 14th, 1978, and Lekachman and Lyle Gramley, "Mandatory Wage-Price Controls?" *U.S. News & World Report*, June 18th, 1979.

(5) H. M. Treasury, *Incomes Policy: The Next Step*, London: Her Majesty's Stationery Office, Cmnd. 1626, 1962.

(6) Department of Economic Affairs, *Prices and Incomes Policy*, London: HMSO, Cmnd. 2639, 1965.

(7) David Smith, 'Incomes Policy' in Richard Caves, *Britain's Economic Prospects*, London: George Allen & Unwin, for the Brookings Institution, 1968, pp 123-4.

(8) For official evidence on this see Department of Economic Affairs, *Prices and Incomes Policy After 30th June, 1967*, London: HMSO, Cmnd 3235, 1967.

(9) For a review of the gradual increase in power of the union movement during the period of these controls, see John Burton, *The Trojan Horse: Union Power in British Politics*, London: Adam Smith Institute, 1979.

(10) Confederation of British Industry, *Price Controls and the Price Commission: The Business View*, London: CBI, 1979.

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(11) Department of Economic Affairs, *Prices and Incomes Policy*, London: HMSO Cmnd. 2639, 1965, p. 7.

(12) See for example, C. Jackson Grayson, *Confessions of a Price Controller*, New York: Dow-Jones, Irwin, 1974. And by the same author, 'Controls are not the Answer', *Challenge*, vol. 17, November-December 1974, pp 9-12, and his 'The US Economic Stabilisation Program 1971-74' in the Fraser Institute's *The Illusion of Wage and Price Control*, op. cit.

(13) The lower estimate is based by the Commission on the assumption that its recommendations delayed scheduled price increases for one year, while the upper figure assumes that the loss to the company was permanent. Unfortunately the Commission did not have records sufficient to check where in the range is the most likely actual figure.

(14) Sir Arthur Cockfield, 'The Price Commission and the Price Control. *Three Banks Review*, March 1978, p. 17.

(15) *Ibid.*

(16) For examples of such economic distortions, see D.R. Glynn, in the *CBI Review*, London: Confederation of British Industry, April 1976.

(17) A. W. Phillips, "The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-57", *Economica*, vol. 25, November 1958, pp 283-99. See also Richard G. Lipsey, "The Relation between Unemployment and the Rate of Change of Money wage Rates in the United Kingdom, 1861-1957: A Further Analysis," *Economica*, vol. 27, February 1960, pp. 1-31.

(18) Frank Brechling, "Some Empirical Evidence on the Effectiveness of Prices and Incomes Policies" quoted in David C. Smith, *op cit.*

(19) These figures according to National Income and Expenditure Blue Books, various years.

(20) *Hansard* (Parliamentary record), vol. 960, column 747, January 1978.

(21) Michael Latham, M.P., reported in *The Daily Telegraph*, 9th January, 1978.

(22) *Hansard*, vol. 960, column 781.

(23) A similar situation to that predicted by George L. Perry, 'Wages and the Guideposts,' *American Economic Review*, vol. 57, September 1967, pp. 897-904.

(24) *Price Controls and the Price Commission: The Business View*, Confederation of British Industry, *op cit.*

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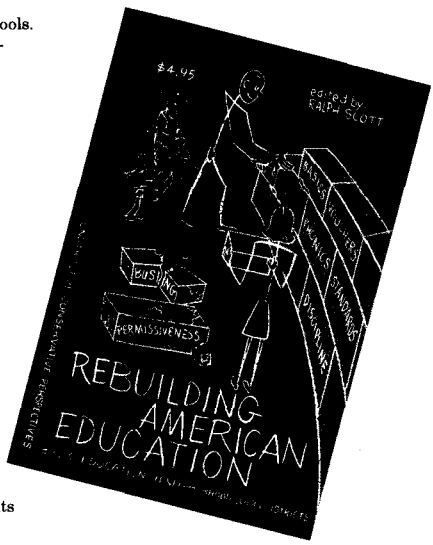

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BRAZIL: AN EMERGING STRATEGIC FACTOR IN THE SOUTHERN ATLANTIC

By Clifford A. Kiracofe, Jr.

Influenced in part by centuries of Portuguese maritime heritage, Brazilian nationalism impels modern Brazil to seek a larger global role and increased global presence. (1) The Third World offers a vast stage for Brazilian relations which can prepare the way for her eventual global political and diplomatic destiny which by geographical size and the size of her rapidly increasing population she has reason to hope for. (2) The development of active export markets in Third World countries could accelerate the pace of Brazil's own economic growth and facilitate her rise to world power status. From such a position, Brazil's weight within the industrialized world will of necessity increase and her views will be increasingly heard in the councils of world politics.

Brazilian Nationalist Influences

Nationalism has for centuries been deeply rooted in the psychology of the Portuguese. With the independence of Brazil in 1822, Brazilian nationalism not only perpetuated this ancient trait but developed its own culturally distinct quality. The influence of the tropics and the geographic distance from Europe as well as an isolation from her Hispanic neighbors in the New World combined with the vastness and exotic richness of Brazil to evoke new dimensions of nationalism as she progressed through different phases in her national life.(3)

As E. Bradford Burns has pointed out, Portugal was one of "the first of the modern European states to emerge." (4) Territorial integration and the beginning of the consolidation of political authority by the Portuguese monarchs was a fact by the mid-thirteenth century. Portugal expelled the Moors long before Spain was able to throw off their domination; yet contact with the Moorish culture stimulated and enriched the subsequent Portuguese civilization and was a decisive factor in her rise to global power. King Henry the Navigator founded his famous school of navigation at Sagres, Portugal in 1411, and assembled scholars, technical experts, and skilled personnel to provide the

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intellectual power and technical basis for the global expansion of Portuguese influence.

Immediately after da Gama's first voyage to India a second Portuguese expedition set sail for India only to be carried by unanticipated ocean currents to what is now Brazil. The Portuguese soon became convinced that this new land was a paradise of infinite riches. For them, their verb *explorar* meant not to search for or to investigate in the Anglo-Saxon sense; but, rather to exploit. To this day, a policy of resource exploitation and expansion of commercial influence has continued and Brazil still today conceives of foreign policy as an instrument of economic development.

There are a number of examples of the manifestation of nationalist sentiment during the 19th Century. Economic nationalism was pronounced during the debates over the 1844 tariff and over commercial arrangements with London and Paris. (5) The War of the Triple Alliance (1868-1870) against Paraguay occasioned a tide of nationalism. When a mild military coup d'état brought about the formation of the Republic of Brazil on November 15, 1889, the stage was set for the further development of Brazilian nationalism.

The brilliant diplomacy of José Maria da Silva Paranhos, Jr., the Baron of Rio-Branco, fired the imagination of the Brazilian people and opened the door for the Brazilian Republic's entry into world politics. The Baron of Rio-Branco was instrumental in the founding of a tradition of cooperation between Brazil and the United States on matters of importance in world diplomacy. (6)

The Vargas Period: 1930-1946

Nationalist currents which found support particularly among the military propelled Getulio Vargas into the Brazilian presidency in 1930. The worldwide economic crisis and the severe problems in the coffee export market caused tense conditions in Brazil. Immigration from Europe brought contemporary leftist and rightist political ideologies to the New World, and the rapidly growing urban middle class and the laboring classes raised new political demands. Seizing economic nationalism as an ideological pillar for his regime, Vargas was able to synthesize various strains of economic nationalism into his *Estado Novo* (New State) programs.

A major contributor to 20th Century economic nationalism

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in Brazil had been Alberto Torres who, in 1914, had written:

> Above all else, the independence of a people is founded on their economy and their finances . . . in order for a nation to remain independent it is imperative to preserve the vital organs of nationality: the principal sources of wealth, the industries of primary products, the instrumentalities and agents of economic circulation, transportation, and internal commerce. (7)

When World War II arose Vargas declared in the same line:

> Our first lesson from the present war is that the only countries that can really be considered military powers are those that are sufficiently industrialized and able to produce within their frontiers the war materials they need. (8)

Vargas' words served well to assist the formation of the foundation of Brazilian national security policy since World War II. The central thrust of the policy is summed up in the phrase *segurança e desenvolvimento* ("security and development").

The Post-War Years: 1946-1956

Getulio Vargas resigned the Brazilian presidency in 1946 and was followed by the election of General Enrico Dutra. (9) The Brazilian polity became subject to political debate in Congress and a more democratic attitude emerged from the Executive. The government's Five Year Economic Development Plan pleased nationalist industrialists as well as a post-war public desiring consumer goods.

The Dutra Administration initially moved away from a hard-line nationalist approach to foreign trade and attempted a free trade policy. This, however, appeared to be ineffective to many and in 1947 exchange controls were imposed and a system of export licensing begun. A significant aspect of this period was the establishment of a series of U.S.-Brazilian commissions to coordinate aid and technology transfer. From these commissions emerged a group of young Brazilian economists who would become, in time, voices of a newly articulated ideology of economic nationalism. This approach, "developmentalism," was elaborated in a systematic manner during the middle 1950s.

In 1950, Vargas was voted back into power and quickly proceded to issue more hard-line nationalist pronouncements than during his earlier period. (10) He undertook drastic measures

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which further centralized governmental control over the economy and state participation in the economy. During the election campaign he made famous the slogan, *O Petroleo é Nosso*! ("The Oil is Ours!). Vargas created the Brazilian state oil company, PETROBRAS, in 1953. Vargas announced the second Five Year Plan in 1951 and created the National Bank for Economic Development and the Bank for the Northeast.

Brazilian developmental nationalism as an ideology began to be formulated and articulated in a progressively more systematic and sophisticated manner as a growing group of intellectuals drew together to discuss and publish theoretical positions and analyses. Leading spokesmen for the movement were to be found in Vargas' Economic Advisory Staff. Celso Furtado wrote works in this vein in 1954 and 1956. The "Itatiai Group" led by Helio Jaguaribe, Guerreiro Ramos, and Ewaldo Correia e Lima began publishing *Cardenos do Nosso Tempo* (Annals of Our Time), a journal of systematic political, economic, and cultural analysis. (11) *Revista Brasiliense* (Brazilian Review) was published between 1955 and 1964 while *Revista Civilização Brasileiro* followed in 1965.

The *Institutio Superior de Estudos Brasileiros (ISEB)* (The Higher Institute of Brazilian Studies) was founded in 1955 as an autonomous agency under the Ministry of Education becoming a central influence on the further formulation and elaboration of developmental nationalism until it began to be taken over by Marxists in 1959 when many of the original members resigned.

Another institution, the *Escola Superiora de Guerra* (ESG), was founded by President Dutra in 1949 and created a highly articulated doctrine which would later blend in elements of the developmentalist school. The ESG was created partly as a result of the influence of the United States Military Mission to Brazil whose cooperative links were forged in combat during the Italian campaigns of World War II. The ESG approach is to bring together large numbers of key civilians, from businessmen to clergy, under the aegis of a broad national security doctrine linking economic growth to security.

Juscelino Kubitschek assumed the presidency in 1955 with the support of the military. He regarded economic development as the critical issue and defined his nationalism as:

The nationalism which we espouse is one which is based

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> upon our development. The nationalism propitious for Brazil would tend to place it on the level of the rest of the countries of the world so that it could speak as an equal without subservience, without fear, without any feeling of inferiority. (12)

Industry boomed under Kubitschek's leadership. During his administration, Brasilia, the new capital, was constructed in the interior fulfilling an idea advanced over a century before to build a new capital in the interior to symbolize Brazilian unity.

Kubitschek created the Development Council as an official body composed of young technocrats and economists to make recommendations on the direction of the nation's economic policies. A stabilization program was introduced in 1959 to combat social problems brought about by high rates of inflation and to qualify for IMF credits. The program, however, exacerbated social unrest, as has been the case with other IMF dictated programs, and evoked sharp nationalist criticism. In consequence, the program was dropped and the IMF was thereafter prevented from dictating Brazil's economic policies.

Barter trade arrangements were negotiated with the Soviet Union to the satisfaction of those nationalists who advocated a neutralist stance in the East-West struggle and who felt that a display of an "independent" or "non-aligned" posture was a symbol of independence particularly from the United States. However, in international politics it is difficult to remain neutral for long unless a state has the power to do so and should a state gain that power it then tends to become an interested actor.

Janio Quadros won the 1960 elections but his administration was only to last for seven months. He appointed anti-Vargas ministers and moved away from prior economic policies. His new policies occasioned internal criticism though he did renegotiate the scheduling of payments for the Brazilian external debt with United States and Europeans banks as well as with the IMF. Responding to increasing criticism, his appointment of Candido Mendes de Almeida, a well-known nationalist intellectual, as his principal economic advisor signalled his shift to a developmentalist line and in August he announced the formation of the National Planning Commission an official body which was similar to Kubitschek's Development Council.

Quadros pushed the so-called "independent position" con-

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cept in his foreign policy, developed a Brazilian-African initiative, and advocated "neutralism" with respect to the East-West struggle. (13) This posture was ostensibly directed against a supposed United States' domination over Brazil's foreign policy activity. Quadros even went so far as to develop ties to Fidel's Cuba to demonstrate his independence and desire for ties with the Third World.

João "Jango" Goulart, who had well-known leftist tendencies, succeeded to the presidency, and intensified the pace of developing relations with the Third World and the Communist world. He welcomed a trade mission from the Peoples' Republic of China and reestablished diplomatic relations with the Soviet Union after a fourteen year hiatus. San Tiago Dantas, Foreign Minister for a time during this period, was an aggressive exponent of expanded cooperation with the Communist Bloc. (14) The attempt was made to legitimize this policy line by giving it the appearance of traditional Brazilian nationalism and support for the peaceful settlement of disputes. His policy, however, differed from the traditional course in that it aimed at placing great distance between Brazil on the one hand and the United States and West Europe on the other, emphasizing a closer association with the Third World.

The 1964 Revolution and After

The Goulart Administration became so dominated by the extreme left that many prominent civilians began to encourage decisive action from the military to forestall chaos. Eventually, a military-civilian coup in April 1964 deposed the Goulart government and installed General Humberto Castello Branco, a moderate, in power. (15)

The Castello Branco Administration espoused a traditional nationalism in opposition to international socialist and Communist forces. In the economic sphere the central thrust of developmental nationalism was retained in its traditionalist form. Economic measures of a more orthodox nature were reintroduced in an effort to stabilize the chaotic and disintegrating economy.

In foreign policy a dramatic change occurred: relations with Cuba were broken; Brazil voted against the admission of the Peoples' Republic of China to the United Nations; and a strongly pro-United States attitude was adopted in support of American policy in the Dominican Republic and Vietnam. (16)

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But the ensuing administration of General Costa e Silva which followed became more flexible in its foreign policy line as the internal situation stabilized and improved. The country was making solid progress on the economic front and achieving very respectable rates of economic growth. This progress, in turn, allowed the succeeding administrations of Generals Medici and Geisel to maintain a flexible foreign policy approach which would allow, for strictly commercial reasons, the development of relations with the Communist Bloc. General João Baptista Figueiredo, the former head of the National Intelligence Service (SNI), became the Brazilian president in 1978 and has maintained the policy of "flexible pragmatism" initiated by his predecessors.

Brazil's Interests in the Southern Atlantic Region

Brazil's interests in the Southern Atlantic region are heightened by her status as an emerging economic and military power with a potential global role. Brazil's cultural heritage derived from the Portuguese experience in global maritime expansion informs her sense of policy. The consequences of English, Dutch, and French competition for the lucrative Indian trade monopoly of Portugal which intensified by the 17th century are not lost on Brazil. Not only did Portuguese ships on the vital "Cape Sea Route" fall prey to these contenders for the riches of the East, but Portuguese possessions in Africa were harrassed and the Dutch even were able to establish a territorial beachhead in Brazil.

History passes but geography remains and the growing Soviet maritime threat as well as Soviet and Cuban expansion in Africa calls into question the security of the sea lines which pass through the Southern Atlantic en route to North America, Europe, Africa, the Middle East, and Asia. In addition, Brazil is concerned with the protection of her substantial offshore resources.

Offshore Resources

Fisheries

Friction between Brazil and France over control of coastal fisheries in the "Lobster War" of the early 1960s dramatized the desire of Brazil to assert her authority over her offshore resources. (17) The fact that French naval power was brought

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to bear reinforced the need for naval development. Discovery of rich shrimp grounds off the coast of the Amazon in 1963 brought boats from the United States and other countries to compete with Brazilian entrepreneurs in the exploitation of this fishery wealth. (18)

A large body of Brazilian literature on maritime interests, defense, and law developed rapidly as a result of the experience with foreign pressures during the early 1960s. (19) Brazil has traditionally exhibited respect for international law and the principle of peaceful settlement of disputes, but in November 1966, Brazil expanded her former three mile territorial water boundary to a six mile boundary with an additional six mile "contiguous zone." (20) The territorial water limit was extended to twelve miles in April of 1969 and in 1970 Brazil extended it to a two hundred mile boundary for sovereign jurisdiction. (21)

Oil and Gas

Vital to Brazil's economic growth, upon which Brazilian autonomy depends, is an adequate supply of energy. (22) The Brazilian "economic miracle" from the 1964 Revolution to the 1973 caught the attention of the world for its 10% annual growth rate, until oil crisis following in the wake of the Arab-Israeli War broke the momentum of Brazil's growth by adding a staggering burden on an already high oil import bill. (23)

The Brazilian response to this challenge has been to meet it head on with characteristic Brazilian dynamism. Brazil has undertaken a very significant nuclear energy program, (24) has diversified its sources of oil and gas, (25) has begun to develop alternative energy resources, (26) and has promoted aggressively both onshore and offshore oil exploration and production. (27)

Foreign Commerce

For Brazil, international commerce is vital to economic development and the fact of her large external debt emphasizes the need for export promotion. As has been noted above, her energy demands necessitate secure supplies of forcign oil and gas which reinforces the need for unimpaired flows of exports and imports. Critical to these flows is the security of the sea lines of communication running through the South Atlantic; hence, Brazilian interest in developing military capabilities

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suited to ensuring her economic development.

It is clear from a glance at the map that the South Atlantic region is central to Brazil's security concerns and that she has a vital interest in protecting the viability of the sea lanes running to North America, Europe, Africa, the Middle East and Asia. She must prevent being sealed off from access to the North Atlantic as well as ensure the security of the so-called Cape Oil Route.

Merchant Marine

Following the cultural heritage of the Portuguese maritime empire, Brazil has evidenced great interest in the development of a merchant marine fleet to carry her seaborne trade. An ambitious program is underway to develop her merchant fleet as well as to train merchant marine personnel. The protection of the freedom of her maritime operations is of course another factor propelling her development of military capabilities.

Although a newcomer to shipbuilding, Brazil is now the third largest shipbuilding country in the world following Japan and the United States. In addition to the expansion of ship-building capacity for ships of war, ships for Brazilian government petroleum and mining industry create a vast market which is foreseen in official government planning documents. (28) In the Secretariat of Planning, Office of the Republic of the President, ambitious plans have been worked out for the development of naval construction industry. (29) The first plan, for 1971-1975 was revised dramatically upward in the second plan which covers 1975-1979. Under the recent plan, Brazil is constructing at least 765 merchant ships, a total tonnage of 6 million, in addition to finishing 1.3 million tons from the previous plan.(30)

The economic impact of this expansion of Brazilian merchant marine capacity has been to dramatically lower her dependence on foreign shipping which has resulted in considerable savings in carrying charges. In 1970, only 38 per cent of Brazilian foreign commerce was carried on domestic ships while today over 60 per cent is carried on Brazilian ships. (31) The overall freight deficit from 1970 to 1975 was over $3 billion so the value of a domestic shipbuilding capability and merchant fleet is high.

To train personnel for the merchant marine, Brazil has embarked on a broad program to develop educational facilities with international assistance. (32) Belem is the site of the oldest

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training academy in Brazil and it was the only one until the 1920s. To develop Brazil's educational program the Inter-Governmental Maritime Consultative Organization was consulted and a cooperation program worked out which has received financial assistance from the United Nations Development Program.

The first center to receive IMCO assistance is located in Rio de Janeiro, *Centro de Instrucão Almirante Graca Aranha*, (CIAGA) and was completed in December 1976. (33) This center is capable of training 90 per cent of officers and other personnel required for the merchant marine program. The CIAGA center includes sophisticated equipment such as a maritime training radar simulator, the first to be installed in South America. The second IMCO assisted project is in Belem, the Centro de Instrucão Almirante Blas Aquila (CIABA), which currently accommodates some 400 officers working on a two year course together with 1,000 other students studying nautical matters. (34) In addition to these two key centers, there are some 60 sub-centers throughout the country which give instruction in maritime related fields. (35) It is interesting to note that over 2,500 officers and several thousand deck hands have been training at CIAGA and that the center has provided training courses for students from French-speaking West African nations. (36)

Brazilian News Media and the Angolan Revolution

The perceptions of a well informed and important segment of the unofficial foreign policy elite are well recorded in the two leading Brazilian newspapers, *O Estado do São Paulo* and *Jornal do Brazil*, which are two of the most influential newspapers in all of South America. In January and February of 1976 both papers published a series of incisive articles and editorials calling for a strong commitment to the security of the South Atlantic in the light of Soviet expansion. Criticism, however, was leveled at what the editors considered an exaggerated "Third World" identification in certain foreign policy circles.

Jornal do Brasil noted that "The South Atlantic may turn into an area of confrontation between the United States and the Soviet Union." (37) In this context, the paper emphasized that "it is a geographic imperative that Brazil become a naval power in the South Atlantic," (38) and that Brazilian African policy

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should "logically be directed against any potential military risk to the South Atlantic routes." (39) Brazil's African policy could not be removed from the security of the South Atlantic the editors maintained. (40)

Several days later, the editors of the *Jornal* presented a very clear analysis of the Angolan situation, its implications and the appropriate Brazilian response:

> . . . Brazil is one of the parties most interested in avoiding a communist military presence in the South Atlantic. No one should claim that the Soviet-Cuban military presence is designed to counterbalance South African participation... The non-African force in Angola, the Cuban expeditionary force, is in itself a real threat. We are no longer facing potential threats: an African Marxist state may coexist with Brazil, but not a state and a government which may undertake "a crusade-type communism," determined to disseminate from Angola that type of aggressive communism throughout Western Africa.

Later in the month, the *Jornal do Brasil* elaborated the themes of the Soviet threat and Brazil's role in the defense of the Southern Atlantic in an article entitled, "An Atlantic Brazil." Key passages included the following:

> The crisis in the South Atlantic alerts us to the relative weight of the danger from outside as compared to the danger existing within our borders in the form of potential subversion. Internal security could be compromised if external security is not at once given the attention demanded by the great danger. This is the concern of our naval commanders on giving this warning: "Our country's security depends primarily on our security at sea, because from the sea we can expect threats not only to our maritime traffic, but also to our oil drilling installations, which are mostly located on the coast or on the Continental Shelf and to our refineries and our greatest industrial installations, most of which are located near the coast.
>
> Regional conflicts are coming to us through Angola. We are being awakened from the "go inland" period. Suddenly the Angolan crisis presents us with the fact that Soviet military power is showing its capacity for penetration in the South Atlantic with advanced weapons, and sophisticated spying and control instruments. As we awaken to

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> this danger, we rediscover what has been forgotten: Internal and external security exist side by side. The "revolutionary role" renews the prolonged threat of Soviet naval and air power to our external security. (41)

During the following months, the *Jornal* launched a searing attack on the diplomacy of Henry Kissinger and Washington's lack of will in the face of Soviet expansion:

> With his hands tied to the policy of detente, U.S. Secretary of State Henry Kissinger is unilaterally committed to an accord which has already been broken by the Soviet Union, leaving the burden of its wrongdoing on the United States. (42)

The editors sharply observed that;

> The United States inability to react accordingly in relation to the seriousness of the situation created in Angola has resulted in further loss of confidence. (43)

This criticism of United States' policy was also strongly advanced by *O Estado do São Paulo* in an editorial entitled, "What Can Be Expected From Kissinger?" (44) Two weeks later a long column entitled "Sierra Maestre on the Continent" lambasted Kissinger's diplomacy and lack of will to resist Soviet expansion: (45)

> The South Atlantic has acquired a true world geostrategic significance since, together with the African coastline of the Indian Ocean, it has become the main maritime petroleum route. NATO leaders have time and again called the attention of Western military and diplomatic leaders to the fact that half of the petroleum and raw material destined for Europe, the United States and Latin America have to go around the Cape of Good Hope, at the Southern end of Africa, through poorly defended maritime routes. In this regard, a British admiral has said "From the military viewpoint, the absence of allied forces in that area (the Indian and South Atlantic oceans) is extremely dangerous in time of peace and would be disastrous in case of a West-East war. (46)

By mid-1978, Brazilian perceptions of the shifting constellation of international forces were spurring a call for regional cooperation in security matters. While the concept of a "Southern Atlantic Treaty Organization" had been discussed intermittently over a period of years, attention was increasing

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as to its necessity. The *Jornal* editorialized that,

> . . . the strategic map of the Southern Hemisphere is in the process of changing. The only worry is that the nations with the most responsibility in our continent will continue avoiding negotiations in which formulas might be studied to create barriers to threats which are further off for other nations, but closer to our nations because of geographical proximity to areas already involved in conflict. *What cannot be allowed any longer is leaving up to others the creation of defensive schemes which will affect us first and most directly* (47) (emphasis added).

Aspects of Brazilian Geopolitical Doctrine

Intellectual Foundations

The central importance of the Brazilian Higher War College (*Escola Superiora de Guerra* ESG) for the development of a comprehensive integrated doctrine of national security cannot be underestimated. As noted in the section on Brazilian nationalism, the school was founded in 1949 and has blended traditional strands of developmental nationalist thinking into its curriculum and publications. (48) The well elaborated doctrine of "security and development" is the central theme of its journal *Seguranca e Desenvolvimento* (Security and Development) and it stresses the organic interrelationship between military power and economic power as elements of national security. (49) Brazilian concepts of foreign policy as a function of economic development reflect this framework as well.

Two key founders of modern Brazilian geopolitical doctrine are General Golbery do Couto e Silva and General Carlos de Meira Mattos. Both stress the critical importance of the South Atlantic to Brazil's security and both emphasize the concept that Brazilian security depends in great measure on the security and stability of the countries along the West African littoral of the South Atlantic. In both writers the themes of economic and military power are intertwined within the overall context of ESG doctrine. Detailed analyses of Brazilian geopolitical thought can be found, not surprisingly, in the authoritative Argentine journal *Estratogia*. (50)

From the perspective of serious attention to geopolitics, the astute General Carlos de Meira Mattos published a book entitled *The Global Projection of Brazil* in 1961 in which he maintained

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that the defense of Brazil begins on Africa's Western coastline. (51) The book was timely for it was in 1961 that the revolution in Angola first became openly violent. As Americans would view the fall of France to Communism a strategically dangerous situation similarly the Brazilian geopoliticians are concerned with the security of the Western African coast.

Another very important force in Brazilian geopolitical thought and strategy is the far-sighted General Golbery do Couto e Silva who published his classic, *Geopolitics of Brazil*, in 1967. (52) In this work he developed the concept that Brazil's security is particularly influenced by developments in two zones. The first consists of Latin America, the South Atlantic, and West Africa. The second consists of East Africa, the Middle East, India, Japan, and South East Asia. It is in Brazil's interest to encourage stability in these areas as well as to develop diplomatic and commercial relations with them. In 1975 General de Meira Mattos published his most recent work entitled *Brazil: Geopolitics and Destiny* which, undoubtedly, will have an impact for some time to come. (53)

Geopolitical thought is not limited to military experts in Brazil. Several distinguished diplomats have written on the theme of Brazil's role as an emerging power, the determinants of power and the uses of power. A particularly incisive view of this stream of thought was given by Sr. Mario Gibson Barboza, Minister of Foreign Relations, whose message was one of realism and prudence as he stated:

> Every state has a specific weight, its own power in the community of nations. The overestimation of that national power and its abusive application inevitably brings about disaster, if not destruction . . . Inversely, a State will be condemned to immobilization, which is also a disaster, in an era such as the present one of real acceleration of the historical process, if it fails to utilize its respective national power to its precise limits, be it through timidity or through exaggerated prudence in avoiding the inevitable confrontations of international life. (54)

He emphasized the "dynamic" nature of the Brazilian tradition and the task of Brazilian diplomacy to not only safeguard interests but to open "paths of national expansion."

The late Brazilian Ambassador to the United States, Sr. João Augusto de Araujo Castro gave much thought to the problem of

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Brazil's world position in a situation of nuclear superpowers "freezing" the world power structure owing to their hold on nuclear weapons. (55) Meanwhile, speaking at the Higher War College in 1972 the veteran Brazilian diplomat Jose Oswaldo de Meira Penna observed that

> If Brazil really desires to be a Great Power, and if this implies . . . the potential and concrete exercise of brute force, are we disposed at this level to repudiate a peaceful diplomatic tradition to become engaged in military adventures, which alone, unfortunately in the cruel world of international relations, consolidate the political status of a country? (56)

Elaborating on these themes, the former Secretary General of the Foreign Ministry, Sr. Manuel Pia Correa Junior, stated in a speech to the Superior War College that it was necessary for Brazil to increase her investment and commerce not only in neighboring countries but "in overseas territories of geopolitical relevance for us, such as Portuguese Africa." (57)

The Southern Atlantic and Current Doctrine

The geostrategic significance of Africa for Brazil, as well as for the West, was clearly demonstrated during World War II. Strategic lines of communications such as those provided by the Belem "springboard" for air traffic and the Natal-Dakar straight, the "wasps' waist," are well known. German planning for submarine warfare in the Atlantic – Northern, Central, and Southern – to cut off Europe and North America from essential supplies and to disrupt lines of communications and reinforcement is also well known. The significance of German strategic planning has not been lost on the Soviet Union, nor has it been lost on Brazil's defense community.

During the swearing-in ceremony for the incoming squadron commander of the Brazilian Navy, Admiral Roberto Mario Monnerat, on January 14, 1976, significant indications were given on the Brazilian view of security issues in the South Atlantic by both himself and the outgoing squadron commander, Admiral Carlos Auto de Andrade.

Admiral Monnerat stressed the security of petroleum operations as well as sea lanes and the implications of maritime security for the Brazilian people:

We feel the need for our people to develop a more realistic

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> maritime idea and the awareness of the fact that our country's security depends primarily on the security of the sea. This is because it is through the sea that we may face threats not only to our petroleum drilling installations, most of which are located either on the coast or on our continental shelf, as well as to nearly all our refineries and to the largest industrial centers which are also located near the coast. (58)

Drawing attention to the fact that the South Atlantic "has been threatened by Soviet infiltration," Admiral Auto de Andrade spoke of the need for Brazil to develop a naval capability which could properly safeguard Brazil's strategic position in the South Atlantic. Noting the then turbulent state of world affairs, which has not improved since, he concluded that:

> today, we are seeing evidence of this commotion in sensitive strategic areas of our foreign security . . . this picture, whose outlines and colors we are not exaggerating, reveals that we must be ready to defend the fatherland at any time because, otherwise, we will not have time to do so. (59)

Further indications of Brazil's South Atlantic security policy were revealed in an important interview by the Deputy Chief of the Armed Forces Staff, Admiral Ibsen de Gusmão Camara on September 5, 1977. The Admiral noted that the Brazilian Navy was conducting studies to establish a system to defend Brazil's coastal oilfields stating that this new naval mission "will increase the Brazilian Navy's responsibilities in relation to the country's economy and development." (60)

Recent issues of the influential professional journal *A Defesa Nacional* have devoted increasing attention to the elaboration of a geopolitical policy suited to South Atlantic imperatives. For example, the September-October 1978 issue carried an article by Colonel Hermes de Araujo Oliveira of the Portuguese Army entitled, "Brazil and the South Atlantic," (61) in which the author emphasized that the South Atlantic could serve as a highway for Brazilian commercial and political relations with Africa as well as an invasion route for hostile forces against Brazil and South America.

Further development of the theme of Brazilian-African relations came in the next issue with a closely argued piece entitled, "Brazil and Sub-Saharan Africa," by naval Captain

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Roberto Gomes Pereira. (62) The Captain noted Soviet expansion and imperial policies in Africa and expressed great concern over the "radicalization of the regimes of Portuguese speaking Africa." (63) He noted that Brazilian initiatives and relations with Portuguese Africa were limited by the regimes' "dependence, each day greater, on the Soviet and Cuban economies." (64)

Two important articles on Africa and the South Atlantic appeared in the January-February 1979 issue. The first by Professor Therezinha de Castro entitled "The Atlantic Vocation of South America," was written from the broad perspective of "geohistory" and "geopolitics" and argued that the destiny of the greater part of South America lies in the South Atlantic.(65) Professor de Castro stressed the importance of the Southern Cone and declared that, "The Southern Cone has been abandoned by the United States as were Vietnam and Angola." (66) Owing to this lack of leadership from Washington, (67) the Southern Cone would have to assume the role of the "bulwark" of the West in the Atlantic. (68)

The second article, "The African Continent – on many Africas," by naval Captain Aguinaldo Aldighieri Soares presented an overview of the key political-strategic aspects of Africa highlighting the Soviet strategic threat to the South Atlantic. (69) Noting Brazilian economic, political, and strategic military interests in Africa, the author concluded that:

> Our interests in Africa are, in principle, very similar to those of the great powers, from the point of view of our aspiration to be a world power by the end of this century. (70)

To highlight Brazilian strategic interests in the security of the sea lines of communication in the South Atlantic the author included a table of Brazilian oil imports (71) which showed that 87% of the oil that Brazil imported passed around the Cape of Good Hope and this represented 77% of Brazilian consumption. (72)

Brazil's Developing Defense Capabilities

To develop Brazil's defense capabilities and to foster domestic production of armaments, President Ernesto Geisel created by Decree Law the Brazilian War Material Industry (IMBEL). With offices in Brasilia, the initial capital investment

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was $Cr. 1,717,176,000. (74) The reason for the creation of IMBEL was:

> the need for a total reorganization of the military factories, giving them the character and dynamism of private industry, coordinating them with civilian industries, allowing them to cover the areas which the private sector finds difficult, as in the area of high precision instruments. (74)

IMBEL promotes an active export policy of war material as well as supplying the local market. Installation of foreign factories is encouraged with the requirement that they provide their own market, transfer the technology of products made in Brazil to Brazil, and undergo prior clearance for political implications. (75)

Brazilian military arsenals have a history which dates back to 1603 in Rio de Janeiro. Today, arsenals include installations at São Cristovão, the General Camara Arsenal (Rio Grande do Sul), the São Paulo arsenal, the Andrei factory (Rio de Janeiro), the Bonsuccesso factory (Rio de Janeiro), the Itajuba factory (Minas Gerais), the Juis do Fora factory, the President Vargas factory, and the Realenzo factory. (76) A modern factory for heavy land and naval war material is scheduled for construction in Recife with the participation of the Italian Oto Malera firm in association with the Brazilian COSINOR (Iron and Steel Company of the Northeast) firm. (77) The factory will produce artillery and tanks.

The decision to encourage broad foreign cooperation was propelled by the U.S. Carter Administration's negative policy towards South American Rio Pact Allies. This policy has been encouraged by radical elements within the U.S. Administration as well as from top policy advisors such as Sol Linowitz who has had a long record of antagonism to the development of South American defense capabilities and was influential in the Kennedy and Johnson administrations in this regard.

The Brazilian journalist Adirson de Barros was quoted in Argentine daily newspaper, *LA OPINION*, in January 1977 as follows:

> Anticipating renunciation of the military agreement between the United States and Brazil, soon to be decided by the President, the Brazilian Army, based on studies made by the Department of War Material, is reaching agreements with European arms manufacturers to install

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> factories in Brazil . . . the Brazilian Army will be equipped as well as the best armies of the world and Brazil will be entirely free of the control exercised by the U.S. government over our arms policy, thus obtaining true military independence. (78)

The central objective of the development of a native arms industry, "true military independence," (79) will also have a spillover effect in the transferrence of sophisticated technology and manufacturing techniques and in the expansion of a skilled technical workforce.

Foreign Arms Manufacturers

An important West German manufacturer, Krauss-Massei, is developing projects to manufacture Leopard tanks in Brazil and has been cooperating with two São Paulo firms – Prensa Shuler and Bardela. (80) Another German firm, NAK (branch of Krupp), is establishing facilities in Betim (Minas Gerais) to manufacture Marder light infantry tanks which are among the best in the world. (81) Fabrique Nationale de Belgique (FN) entered into partnership with an established Brazilian arms importer, Mayrink Veiga, to construct a factory in Valencia (Rio de Janeiro) to manufacture a broad range of light arms including sub-machine guns. (82) Other firms which have been mentioned include MTU, Motoren-und, Rheinmetall, MBB, and Messerschmidt of West Germany and Oto Malera of Italy.(83)

During January 1977, a French delegation representing the main arms manufacturers visited Brazil with the objective of arranging for production facilities in Brazil. (84) High technology missiles and explosives were among items discussed within the context of arrangements for an ammunition and anti-tank missile factory. (85)

Brazilian Arms Manufacturers

Two major enterprises with armaments capabilities in Brazil are ENGESA and EMBREAR. The former developed a very sophisticated amphibious armed personnel carrier, the Urutu, with cooperation from the Army's Directorate for Research and Technical Training. (86) The Urutu weighs ten tons and can carry 15 persons in addition to an 1800 kg. load across rivers and lakes and can withstand waves of up to 10 ft. Another ENGESA produced armored car the Cascaval, has also attracted international attention. It is not amphibious, though can easily

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cross shallow rivers and operate on soft terrain, carries three men and can attain speeds of 120 kph. (87) ENGESA has plans to expand its line of armaments for domestic and for international markets.

EMBREAR is a key Brazilian aeronautical firm which manufactures a range of civilian aircraft, of which the Bandeirante can use for military purposes, as well as a jet fighter, the Zavante, which is being exported. (88)

The Brazilian shipbuilding industry as noted earlier is the third largest in the world and its capacity for the manufacture of ships of war is substantial. The Brazilian Navy has placed orders with private builders for ships. The Navy's own arsenal (*Arsenha de Marinho*) in Rio de Janeiro is "capable of building any type of ship" according to its Director, Admiral Hugo Friedrich Schiek, Jr. (89)

The Brazilian Navy

The Brazilian Navy came into being with the country's independence in 1822. As the inheritor of centuries of Portuguese maritime experience, Brazil's fleet was originally formed by Portuguese ships. Since 1965, the Navy has been implementing a program for renewal and expansion of the fleet giving emphasis to increasing the amount of Brazilian made equipment.

Navy Minister Geraldo Azevedo Henning described the objectives of the naval development program stating that:

> following directives of the nation's President, we try to give national industry more participation in our shipbuilding program, aiming at our liberation from an external dependence which is unacceptable for many reasons. This program represents a powerful incentive to our industry, making possible the acquisition of more sophisticated techniques in naval construction, as well as development of auxiliary industries in equipment and components so that the desired domestic participation may be reached.(90)

In a lecture at the Superior War College (ESG), Navy Minister Henning emphasized that high priority must be given to national production of equipment with high consumption rates even though efficiency in combat may be initially affected. (91) He also emphasized the importance of the joint effort made with other services in terms of research and development and production of commonly used or easily adaptable equipment. (92)

Particularly significant to the Brazilian Navy's program are

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the six "Niteroi" class frigates with gas-turbine propulsion and advanced weapons systems which include surface-to-surface and surface-to-air missiles as well as anti-submarine warfare equipment. (93) Under a contract announced on September 29, 1970, Vosper Thornycroft Ltd of Portsmouth, England has designed and built in cooperation with the Naval arsenal at Rio these six Mark 10 type frigates which are similar to the British Type 42 guided missile destroyers being built for the British Navy. (94)

Four of these ships were to be built in England, while two, the "Independencia" and the "União," are under construction at the Rio naval arsenal. (95) The latter two are being built with Brazilian manpower and equipment supplied from Great Britain; shipbuilding techniques are similar to those used in British shipyards. (96) The two Brazilian made frigates are scheduled for delivery in 1979 and 1980. Exceptionally handsome in appearance, these frigates require 50% less manpower to operate than previous ships of similar characteristics. (97) The four built in England are configured for anti-submarine warfare, while the two Brazilian built ships are general purpose ships.(98) From their very advanced capabilities, it is clear that these ships will provide a significant contribution to South Atlantic security.

Another very important development was the announcement on April 24, 1978 that Brazil would begin production of its own submarines at the Rio naval yard within two years. (99) Navy Minister Azevedo Henning while speaking to the first class of graduates of the submarine training center on Mocangue Grande Island added that the designs would be purchased from abroad but would include provision for the transfer of technology to bolster national shipbuilding capabilities. (100) It should not be forgotten that interest has been expressed in Brazil for the eventual construction in Brazil of nuclear powered submarines. The current Brazilian submarine inventory includes three British "Oberon" class submarines all built in Great Britain by Vickers.

The Brazilian Army

The Brazilian armed forces number more than 280,000 men and are the largest in South America, followed by Argentina and Cuba. The Brazilian Army is officially acknowledged at 196,000 but as the true figure is secret it is likely that the real

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number is somewhat higher.

The Army has for a number of years sought to broaden its program of acquiring advanced technology from a variety of sources.

The integration of private manufacturers into military planning and programs has been facilitated by the establishment of IMBEL and programs for comprehensive planning. Armored personnel carriers, tanks, and missiles have emerged from army-civilian cooperation. Projects for the acquisition of remote control missile technology, for the establishment of a tactical missile testing system, for missile propulsion systems, for night observation systems, for control radar and for other electronic devices have in like manner been undertaken in recent years.(101)

In terms of missile related activities, the Army established the Marambia proving grounds and the Marambia missile tracking system. New advances in the manufacturing of Brazilian missiles have been exemplified by the completion of the 108-R missile project and the development of the X-20 and the X-40 missiles. (102) Missiles currently being manufactured are a 37mm air-to-surface missile, a 70-120mm air-to-surface missile, the X-40 surface-to-surface missile (100kg payload, 40 km range), the Sonda III sounding rocket (20 kgs. payload, 100 km altitude), and the Sonda III (developmental) which is a two-stage rocket carrying a 50 kg. payload to a maximum altitude of 500 kms. (103)

Brazil ordered four Roland missile systems in 1972 from AUROMISSILE with the stipulation that part of the assembly be conducted in Brazil. (104) Each system carries 10 missiles and the total cost is just over $17 million. (105) The first delivery of the missile system was received in Brazil in April 1978. (106)

Meanwhile, the Army Staff has been reviewing plans for the creation of an army technical center whose mission will include the coordination of all the research activitiy of the Army. (107)

The Brazilian Air Force (FAB)

During an interview following a conference at the Air Force Command and Joint Staff College (ECEMAR), the Commander General of the Brazilian Air Force, Brig. General Jardim de Mattos, stated that a key objective of the FAB is to strengthen the national aeronautics industry in order to accommodate the Air Force's needs and to gain greater cost savings. (108) Fol-

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lowing the move towards a more integrated interface between military and civilian defense production sectors, as discussed earlier, the General's comment underscores the shifting emphasis to more comprehensive defense production planning as it relates to national economic development.

The FAB approach to long-term planning and its applications for national industry was detailed by the Air Ministry (EMAER) Chief of Staff, General Deocletio Lima de Siquiera who emphasized that the FAB would give priority to national industry in placing future orders for aircraft, weapons, electronic equipment, and other material, and showed particular concern for the further development of the EMBREAR C-X project, the production of military transport aircraft.

Interest in the Brazilian aerospace industry has been expressed by Israeli, French and American firms among others. During 1975, Israel, for example, presented a proposal to EMBREAR for the manufacture of the supersonic KFIR fighter. Under the original offer, the proposal was to simply sell to Brazil these fighters; however, prior purchase of French Mirage and American F-5s had placed budgetary constraints until 1980. (110) The offer was then changed to include manufacture in Brazil.

An agreement between Brazil and the United States Federal Aviation Agency in 1976 facilitated the development of cooperative relations between Brazilian and American firms engaged in military production. For example, EMBREAR, has been supplying Northrop with parts of its F-5 – bomb racks and tail assembly parts. (111) This contract called for 150 lots of parts and, according to Colonel Osires Silva from the III Air Regional Command:

> the supply of these parts to the United States met with the best possible reception, expanding even more national industry's prospects in foreign markets. (112)

French involvement in the Brazilian aerospace industry has recently been manifested in the manufacture of helicopters. The Brazilian Industrial Development Council (CDI) authorized the AEROSPATIALE corporation of France to manufacture helicopters in Brazil. (113) Under the decision, the Brazilian Helicopter Company (HELIBRAS) was formed with the French company owning a 45% share, the government of the State of Minas Gerais owning 45%, and the Brazilian firm Fotos Aeros Cruzeiro do Sul also participating. (114) The initial investment

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amounted to $CR 125 million. (115) The plant is located at Itajuba in Minas Gerais about 100 km. from São Jose de Campos, the key Brazilian aeronautics center. (116)

In terms of air defense, Brazil has an integrated system for air defense and air traffic control, SISDACTA. Cities covered by the system include Rio de Janeiro, Sao Paulo, Belo Horizonte and Brasilia within broader areas of the States of Rio de Janeiro, Bahia, Goias and Minas Gerais. (117) Maneuvers are conducted by the Brazilian Air Force which involved almost all of the Air Force units and which test SISDACTA, logistic support, and ground support for combined operations for the defense of Brazilian airspace. (118) Participating in these exercises are such aircraft as F-5 tactical fighters, Miraga III's, transport aircraft, tactical reconnaissance aircraft, and cargo planes.

Brazilian Space Program

As noted above, Brazil has developed domestically produced missile systems and rockets as part of an ambitious program to break into space with a satellite launching scheduled for 1985. This program is under the direction of the São Jose dos Campos Space Activities Institute (IAE), whose Director is Col. Hugo de Oliveira Piva. The 1985 mission will, according to Col. de Oliveira Piva, place Brazil at a level equivalent to the Soviet Union in 1957 after their "Sputnik" launch. (119) Of the project, he stated that:

> We are going to launch into space a satellite built in Brazil with rockets completely created and built with domestic technology.

The satellite will carry sophisticated equipment such as that used in the European "Spacelab" program.

The 1985 mission will use SONDA IV rockets configured similarly to Soviet practice, but it is interesting to note that French and German concerns (AEROSPATIALE and OTRAG) are competing to establish a Brazilian based affiliate to produce rocket launchers. (120)

The Brazilian space program will benefit from the scheduled 1981 launching of the European-made Ariane rocket from a base in French Guyana. (121) Brazilian tracking equipment at an IAE installations in Barreira do Inferno will play a key role and the French scientists involved in the launch project will install tracking equipment in Natal which will later be given to Brazil.

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Further work on the Brazilian space program is being conducted at the Space Research Institute (INPE) located at Sao Jose dos Campos. It has begun the development of a domestic satellite. Work conducted by the IAE and INPE has had a spin-off effect on Brazilian industry and examples of this include contributions to the production of special laminated steel alloys and special heat resistant seamless aluminum tubes. (122) Overall, about 600 technicians are directly involved in the Brazilian space program.

Brazil has developed a plan for a satellite communications system which, for lack of funding, has been held in abeyance. The idea was originated by Minister Hignacio Corsetti near the end of his term in the Communications Ministry. (123) Bids were received by the Brazilian Telecommunications Company (EMBRATEL) from international firms interested in supplying tracking equipment for the satellite system. (124) The program, overseen by EMBRATEL President Haroldo Correa de Mattos, as originally drawn consisted of three stages. The first, to have been completed in 1979 consisted of 17 receiving and transmitting stations located primarily in the Amazon region plus two space satellites and one replacement satellite. The second stage, scheduled for completion in 1981, would have added 19 more stations and the third stage, following by several years, would have added 8 more stations bringing the total to 44.

Implementation of the project would have required $150 million (U.S.) and extreme financial pressures on the government's budget forestalled this program. However, according to Communications Minister Euclydes Quandt de Oliveira, the Brazilian government has requested international organizations to reserve positions in the equatorial orbit in which a Brazilian satellite would operate. (125)

Conclusion

The massive military intervention by the Soviet Union into Afghanistan during late 1979 and early 1980 has served as a sharp reminder that the Kremlin is pursuing a systematic global policy of expansion. The failure of the United States and the West to affect developments in Angola, Ethiopia, South Yemen, Iran and Afghanistan was due, in a large measure, to psychological factors. There has been a fundamental lack of resolve and will resist Communist expansion and a lack of a concep-

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tual framework to justify Western defensive action in the Third World.

The Western powers must develop a new geostrategic concept for defense which recognizes the central importance of the African continent and the Southern Atlantic to the economic stability and continued well-being of Western civilization.(126) Such a concept would best center on a new strategic partnership between the United States, the South American Atlantic states, and South Africa for the defense of the Southern Atlantic sea lines of communication. In this cooperative effort, Brazil has an important role to play. It remains for the United States and other Western powers to formulate an effective geostrategic policy and to join Brazil in a new coalition to assure the future security of the Southern Atlantic region.

FOOTNOTES

(1) On the Portuguese experience see, Charles R. Boxer, *The Portuguese Seaborne Empire 1415-1825*, New York: Alfred Knopf, 1969.

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(9) On Dutra see, Vladimir Reisky de Dubnic, *Political Trends in Brazil*, Washington, D.C.: Public Affairs Press, 1967, pages 13, 14, 42, 74.

(10) On Vargas see, Reisky de Dubnic, *ibid., passim.*

(11) Skidmore, *op. cit.*, p. 361.

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(24) See the author's unpublished Master's Thesis, *Brazilian Nuclear Policy: Cooperation with West Germany, A Case Study*, Charlottesville, Va. for the University of Virginia, 1975.

(25) Purchases from Nigeria, Angola, Iran, the Soviet Union, and possibly the People's Republic of China. Cooperation with other South American countries in oil and gas field with Bolivia, Venezuela, Ecuador, and Mexico for example.

(26) During 1977, PETROBRAS created a new division for alternate energy resources which operates under the Industrial Department. Short term projects include processing of shale and national coal deposits.

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(32) This data taken from IMCO NEWS (Magazine of the Inter-Governmental Maritime Consultative Organization), November 2, 1977.

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(42) *Jornal do Brasil*, 8 February 1976.

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(44) *O Estado do São Paulo*, 14 February 1976

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EAST GERMANY AND SOUTHERN AFRICA

By Christopher Coker

Since Cuba's intervention in Angola, the political pundits have written at length about its role in southern Africa. Their interest is understandable. The presence of 19,000 combat troops reveals the capabilities and ambitions of the only country in the Western Hemisphere to put the Monroe Doctrine into reverse. Its operations in the Horn of Africa two years later demonstrated more forceably than events in Angola the inability of the United States to prevent military adventurism in the southern Hemisphere by a former member of the Organization of American States.

Cuba's presence, however, may be a passing phenomenon. It has naturally captured the headlines because it seems a typical illustration of the Soviet Union's use of surrogate forces. The Russians have pursued their interests in Africa with a dazzling lack of hypocrisy – dazzling, that is, to an American public accustomed to scrutinizing the furtive activities of the CIA or the Department of State. They have deployed Cuban forces quite oblivious to international criticism. They have trained and organized a Marxist-Leninist party (the MPLA) which they have supported in power in their own interests. Consistency of purpose and technical bravura has disarmed criticism of their methods.

The involvement of the East Germans, however, may be far more significant in the long term, not only because they seem to have assumed responsibility for co-ordinating the actions of the Warsaw Pact, but because their presence in southern Africa can also be explained in terms of *national* interest. Their committment of financial and military resources seems more understandable than the support provided by Cuba – which to a very large extent serves the very limited end of gratifying Castro's *amour propre*: his desire to be an actor on the world stage.

As Castro himself admitted to an American Congressional delegation early in 1976, the greatest expense of the Angolan adventure was not the cost of military operations (partly, but

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not wholly subsidized by the Russians) but the concommittant loss of skilled personnel, particularly doctors and engineers, on indefinite secondment to the MPLA. (1)

The most disturbing feature of Cuba's presence is that for the public at large (and even for the Department of State) its military contribution continues to exercise a hypnotic sway, as though its implications were beyond questioning or even discussion. When Dr. Kissinger retorted during an interview with the press that he would not object to the presence of 'several hundred' technicians, providing Havanna withdrew its troops, he gave little thought to the economic consequences which would have followed a blanket withdrawal.(2) In one respect Radio Berlin was not being entirely sophistic when it declared, on the first anniversary of Angola's independence, that the country's economic problems not only arose from America's covert intervention the previous year, but that success in solving them would be largely determined by the extent to which the Cubans laid the groundwork for its future development.(3)

Dr. Kissinger's comments at the time, and ever since, expose a fundamental ignorance about the nature of Cuba's military presence. It is difficult enough to distinguish civilian and military functions since the roles are often interchangeable. As the danger of an American invasion receded in the early '70's, Castro began to place less emphasis on a permanent standing force and more on a military reserve. Notwithstanding the fact that Cuba's armed forces have always been instructed to perform social and economic tasks useful for the construction of a socialist state, reservists drawn from a variety of social spheres have found it even easier to slip into a civilian role, or slip back into a military one when necessity dictates. The Cubans have never gone into combat without the presence of reservists, and the latter have never represented less than half, and at times four-fifths of their combat forces in Angola and Ethiopia.(4)

The deployment of so many skilled and semi-skilled men has added to a net drain on the Cuban economy. It also helps throw into relief the extent of its technical assistance. Cuba can ill-afford to send so many civilian technicians overseas. The long term cost for a developing country, if not insupportable, must be judiciously weighed in the balance of its own development. Its own underdevelopment has forced it to place greater em-

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phasis, when drawing up its foreign aid programmes, on men rather than money, on the expertise to run development programmes rather than the cash to fund them. The Cubans have remarkably little to throw into the development pool.

It seems inevitable, whether the war with UNITA draws to an end or not, that the Cubans cannot maintain an indefinite committment without placing an intolerable strain on their economy (which is already heavily subsidized as it is). It is also clear that one of the consequences of providing men rather than money is the need to co-opt other governments (in nearly every case East European) to assist the countries in which they are active.

In southern Africa the role has largely been played by East Germans. Havanna not surprisingly turned to East Berlin in 1978 when it found itself unable to undertake managerial tasks for which it was unsuited. Trade between the two countries has expanded dramatically since the mid-70's; for the last two years the GDR has been on subcontract to Cuba (it has not been invited in by the Angolans themselves). This would seem an appropriate place from which to look at East Germany's role in the region, a role which has largely gone unnoticed, and whenever it has been noticed, has largely been misunderstood.

GDR in southern Africa

By 1978 there were 41,000 Soviet bloc military personnel in sub-Saharan Africa, of which 3,800 were East Europeans and 40% of these East Germans. After the Soviet Union the GDR is responsible for selling more arms to guerrilla movements than any other country (Czechoslovakia included, whose arms corporation *Omnipol* is the fourth largest in the world). In a rare admission in February 1979 SED (Party of Unity) First Secretary Erich Honnecker announced that East Germany has spent on average $100m a year on military support for national liberation since the Portuguese left southern Africa in 1975.(5) After meeting Honnecker in Lusaka, Joshua Nkomo, one of the joint leaders of the Patriotic Front, thanked the GDR and the Soviet Union for their extensive arms transfers.(6)

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Cuban and GDR military forces (without advisers) in southern Africa (June 1978)

Country	Cuban forces	GDR forces
Angola	21,000	100
Mozambique	300	100
Zambia	70	100

Source RAD Background Report 142 (Eastern Europe) 21 June 1979

The presence of so few East German military personnel and at least 10,000 east European civilians (of whom the majority are from East Germany) is explained by the administrative confusion which the Portuguese left behind them, and the lack of technical skills from which the country has suffered ever since the mass exodus of Portuguese settlers. But it is also explained by the problems that Cuba has encountered in taking upon itself the burden of developing Angola.

Although the Cubans failed to run the country's offshore oil fields as long ago as 1976, they only turned to the East Germans when they began to encounter difficulties in planning. In June 1978 economists from the Humbolt University in East Berlin arrived in Luanda to set up a special Institute of Planning and Administration.

Their presence has not entirely escaped criticism. No one has challenged the ability of the East German advisers, or their honesty in managing some of the country's state corporations, in marked contrast to the behaviour of the Cubans who have embezzled more than $100m from *Importang* alone. But one of the main reasons for Lope do Nascimento's dismissal from the Ministry of Planning in December 1978 was his over-reliance on East German advice and the disturbing presence of so many advisers *inside* the administration.

> After sacking him Neto warned of the need to guard against: "the action of certain forces within our country which had pretended to make our party follow an orientation which is not our own . . ."(7)

Although he refrained from mentioning East Germany by name, the Secretary of the MPLA, Lucio Lara, thought it necessary to reassure Berlin that Nascimento's dismissal did not mean that the country was beginning to move away from the socialist

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bloc, "in fact quite the reverse."(8)

At the moment, Angola cannot afford to do without a substantial contingent of East German advisers, or the Cubans who are responsible for their presence. Nor for that matter can Mozambique. Not only have the East Germans established themselves in large numbers in the Ministry of Planning in Maputo, they also run the National Bureau for People's Security and organize the peoples militia, both of which according to *The Voice of FRELIMO* have contributed decisively to the material base of scientific socialism.(9)

Pluralistic Interests of the Warsaw Pact Nations

When discussing East Germany's involvement in southern Africa it is tempting to exaggerate the degree of unanimity within the Soviet bloc. As a result of its unique history the GDR has interests which make it impossible to dismiss its actions as those of a surrogate (a term rather loosely used since 1975).

This does not mean that its interests conflict with those of the Soviet Union. They do not. But almost without realizing it the Soviet bloc has crossed a great divide: tendencies to pursue national foreign policy goals which were always present have begun to influence the framework of Soviet policy. However monolithic the instincts of the leadership, however much its allies have become prisoners of Marx's deceiving yet seductively articulate visions of the past, the USSR is being forced to take increasing account of the pluralistic interests of the Warsaw Pact.

The truth is that both the Soviet Union and the GDR maintain a presence in southern Africa to further their own interests and if an interest did not exist the East Germans might not be there. To characterize them as 'surrogates' is to sublimate the interests of the rulers of the GDR in a bogus collective identity which obscures the real interests they share with Moscow. Because we still insist on discussing the politics of southern Africa in terms of a contest between two Super Powers we often fail to take account of the fact that special circumstances of one area of the world may produce special interests for another.

Willy Brandt's *Ostpolitik* in 1969 and detente which followed three years later provided the GDR with an incentive to find its own identity in Europe and to use its relations with the Third World as a catalyst. One of the casualties of detente was the

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Halstein Doctrine, which had been invoked by the West Germans whenever any country wished to extend diplomatic recognition to both East and West Germany at the same time.

Since 1972 East Germany has called itself a 'socialist nation', removing by intellectual *legerdemain* the word Germany from its vocabulary and conceding the right of the other *state* (the Federal Republic) to call itself the German *nation*. Ever since then the GDR has looked upon itself as a strictly political entity lacking the legitimacy of national identity shared by every other state. Instead its legitimacy is supposed to stem from a social order 'superior' in every respect to that which prevails in the west, and manifest not in material prosperity but in its Marxist-Leninist ideology.

The historical and cultural differences which distinguish even the eastern European states from each other (despite the political order they share in common) cannot be said to distinguish East Germany from West Germany. (10) Not only has ideology become increasingly important, but access to the revolutionary struggle in southern Africa compensates the East German citizen for the revolutionary schlerosis which has set in within the GDR itself. This is especially noticeable in the support its mass movements have given Mozambique: the *Frei Deutscher Gewerkschaftsbund* (FDGB); the *Freie Deutschjugend* (FDJ); and the *Demokratischer Frauenbund Deutschland* (DFD). All of them have given substance to the cultural agreements signed in August 1978 by the Secretary-General of Mozambique's Ministry of Education, Silva Acosta and the East German ambassador Johannes Vogel.

Cultural agreements are, therefore, much more important for the GDR than they are for its allies. Over 400 journalists from the developing world have been trained in its Solidarity School in East Berlin since the mid-60's, while the large East German lobby which reported the war in Portuguese Africa in the early '70's continues to play an important role in establishing close contacts with the African journalistic community in Angola and Mozambique.

The sympathy which the East German government has shown the struggle for black rule in southern Africa predates Ostpolitik. In one respect the framework for the 'new order' was established in the '60's when the guerrilla first took up over.

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In Mozambique the East German delegation to the Afro-Asian Solidarity Committee took the trouble to journey to Dar-es-Salaam in 1969 to hand over its contribution in person. German teachers volunteered by the score for the Mozambique Institute, FRELIMO's school in Tanzania, which had been so worried by accusations of 'cultural imperialism' that it had earlier refused an offer of scholarships from the Ford Foundation. After the assassination of its founder, the party's new leader Samora Machel visited East Berlin for the 8th rally of the SED, an honour reciprocated five years later when the SED and CPSU found themselves among the principal foreign guests at FRELIMO's Third party congress.

In 1961 *Deutsch Aussenpolitik* became the first east European journal to publish the MPLA's party programme, four years before the movement was recognized by the Soviet Union. Its founder Angostinho Neto enjoyed the consistent support of East Germany throughout the struggle against Portuguese rule, in contrast to the Soviet Union which on more than one occasion considered transferring its support to his chief rival on the central committee Daniel Chipenda.

Early in 1972 the *Neues Deutschland* praised the MPLA for being the only nationalist movement in southern Africa possessing "a foreign policy which clearly orientates itself to co-operation with the socialist world."(11) Fully alive to the ideological import of the Angolan revolution and what it meant for the East German *state* Gunther Kleiber described the MPLA's proletarian internationalism as "a remarkable expression of the changed balance in the international arena," (12) a balance which East Germany intends restoring at West Germany's expense and through which it hopes to confirm its legitimacy as a nation.

GDR and the Warsaw Pact

If the GDR believes its presence in southern Africa adds credibility to its *political* identity, its ruling elite hopes to buy Soviet support by orchestrating its strategic goals through the Warsaw Pact, and to postpone indefinitely a separate German settlement in central Europe to which the Russians might not always be unsympathetic. Not even in this respect can its actions be described as those of a proxy. They are even more representative of interests of the leaders of the GDR since they

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have become the price of maintaining Soviet guarantees for the existence of a separate East German state.

East Germany's attitude towards the Patriotic Front is one example. The East Germans were instrumental in maintaining almost uniform support for Nkomo's movement until the very eve of the Commonwealth Conference in Lusaka. The Soviet Union never put its trust in Robert Mugabe whose former sympathy for the Chinese seemed to make him ideologically suspect. ZANU, like the PAC and SWANU (Namibia) were always excluded from the nationalist summits at which ZAPU, the ANC and SWAPO were always present. Even as late as February 1979 Mugabe told a reporter from *The International Herald Tribune* that apart from the Romanians, he expected absolutely no assistance "from the rest of the socialist bloc."(13)

Although Nyerere arranged for ZANU's entire central committee to visit eastern Europe in November 1978 the GDR prevailed upon the other Warsaw Pact members to continue withholding arms. The East Germans also dissuaded Cuba from interceding despite three separate meetings between Mugabe and Castro in as many months.

Their attitude to say the least seems puzzling in the light of ZANU's experience of West Germany. The Federal Republic's support for the Patriotic Front was also for Nkomo. When Frau Marie Schlei, the Minister for Development Aid, told the *Bundestag* that those African states which had established close relations with the East had only done so during the transitional phase to independence, and only then because they had received no support from the West, she had ZAPU in mind, not Robert Mugabe. It was Nkomo whom she visited in April 1977 while in Lusaka; and when the ZAPU leader flew to Bonn in June he was received by the Foreign Minister and the Secretary General of the Social Democratic Party (SDP) Egon Bahr.

His reception contrasted markedly with the treatment suffered by two ZANU representatives Didymus Mutasa and Dr. Herbert Ushewokunze, the following year. The Minister of Internal Affairs refused them permission to disembark at Frankfurt airport to address the *Kommunisticher Bund Westdeutschland* on the ground that it was illegal for a group to appeal for arms. The fact that the meeting had been cleared by the German embassy in Maputo before their departure seems to have been overlooked.

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In the event West Germany, and not the GDR, was invited to Zimbabwe's independence celebrations on April 18th. By resolutely supporting Soviet interests the East Germans denied themselves an excellent opportunity to discomfort the West Germans. But this is very much in keeping with their apparent intention to co-ordinate Warsaw Pact strategy in the region on behalf of the Soviet Union.

Unlike the Cubans, the East Germans have tended on the whole to offer their services to established radical governments rather than national liberation movements, whether in Ethiopia, Guinea-Bissau or Sao Tomé. The highest ranking German officer in Africa is presently serving in Ethiopia where he commands Colonel Mengistu's Security Police and over 1,500 German security personnel.

Nonetheless, their role in southern Africa has increased dramatically since the visit of their Defense Minister Heinz Hoffmann in May 1979 to Zambia and Mozambique. Their military role is now so extensive that it has begun to challenge the Cuban presence both quantitively and in terms of influence.

The East Germans played a limited, though not unimportant role, in Angola in 1976 sending what Radio Berlin euphemistically called 'solidarity freight' – MIG 21s rather than men at the height of the fighting. The South African newspapers at the time presented conflicting accounts of the numbers involved – from 'a great number' in *Die Vaterland*, to 'several hundred' in the *Windhoek Algemeine Zeitung*, although the best informed West German source could only trace one officer from East German state security as late as November.(14) It seems quite clear from published sources that numbers have rapidly increased since 1976 and that in the course of periodic offensives against UNITA strongholds in the south East German pilots have been gradually taking the place of their Cuban opposite numbers in flying MIG 21 sorties. French intelligence reports close to Savimbi maintain that the East Germans have established a special command centre at the former Portuguese army base at Henrique de Carvahlo to train Cuban *and* Angolan soldiers.(15)

The conclusion of a treaty of friendship with Mozambique reveals East Germany's role in a rather different light. On this occasion it seemed less interested in the tactical dimensions of the guerrilla war (comradship in arms which included helping ZANU to blow up bridges and lay mines) than the *strategic*

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implications of the fighting. On this occasion they allowed themselves to be used by the Soviet Union as accomplices 'before the event,' with a brief to keep all the strategic options open. The pact with Mozambique provides for co-operation in the military sector 'in the interest of strengthening (their) defense capabilities' as well as a provision for contact between the signatories should a situation arise that threatens international peace.

While in Lusaka General Hoffman promised 'massive' military aid for the Front Line states as well as the guerrillas and promised that aid to the latter would continue long after independence had been won.

East Germany's intervention is interesting because it seems to represent an overall Warsaw Pact strategy. During the meeting of the Pact's Consultative Committee in November 1978 the GDR specifically discussed aid to the liberation movements *in the context* of aid to the Front Line States. The Pact appears to be guaranteeing southern Africa from South African (or American) 'aggression' and providing itself with a role at the same time. Many Africans are quite aware, however, that the solution to minority rule lies not in the multiplication of treaties but in reforming the situations which necessitate them.

It is clear that Hoffman represented the Warsaw Pact as well as East Germany in 1979 since his visit took place at the same time as a meeting of its Military Council in Budapest, at which each member was represented by its Minister of Defence. The absence of the East German Minister clearly showed where the priorities of the whole group lay. Given the fact that East Germany is second only to the Soviet Union in importance in the Pact, it seems probable that it has taken upon itself the responsibility for co-ordinating a military strategy with political ramifications which might embarrass the Soviet Union (now that Namibia and South Africa are permanently on the Security Council's agenda). Indispensability is the surest guarantee of future Soviet support.

Competition with West Germany

The West Germans have not responded to the 'new order' in southern Africa without attempting to undercut the links between the GDR and the state system's Marxist-Leninist states. As a country which attaches so much importance to

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ideological consistency, East Germany cannot be very happy with the attempts by the Socialist International to woo Angola and Mozambique into the fold.

East Germany, like nearly every east European country except Czechoslovakia, has signed inter-party agreements with both countries. These act as an important medium of 'the mutual exchange of experience' through the training of party cadres, part of the 'militant relationship' with the socialist world.

Nevertheless both the MPLA and FRELIMO were prevailed upon by the West Germans to attend the SI's Vancouver Conference in 1978 in the status of 'observers'. The Germans are particularly well represented in the presidency of Willy Brandt and the secretaryship of Hans Jurgen Wichnewsky. The Social Democratic Party provides half the movement's funds, while the Friederich Ebert Foundation runs a leadership and bursary programme in sub-Saharan Africa. East German suspicions must have been fuelled by Brandt's criticism of the SI at Geneva (November 1976) for losing the MPLA to Soviet influence; Olaf Palme's visit to the Front Line States the following year; and its presence at an anti-apartheid conference in Maputo from which it emerged strongly supporting SWAPO, the Patriotic Front (PF) and the African National Congress (ANC).

The Socialist International, however, was not helped by the actions of one of its leading West German members, Eugen Loderer, a member of the Metal Workers Union and the ubiquitous Ebert Foundation, who returned from a visit to South Africa in 1978 strongly critical of economic sanctions.

The East Germans have not hesitated to take advantage, whenever they can, of West Germany's links with southern Africa's remaining white state. Their attack was first launched at a much earlier anti-apartheid conference in East Berlin (May 1974) at which the South-Africa-West German 'axis' (a phrase which has entered the Marxist vernacular) first came under the scrutiny of the United Nations. The 'axis' represents 300 firms with subsidiaries in the republic; another 6,000 which maintain direct or indirect links with counterparts in South Africa; and the support which the government controlled insurance company *Hermes Kredit-Versicherungs* has extended to companies investing in the parastatal sector: from steam generating equipment provided by *Deutsche Babcock* to SASOL II (the re-

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public's oil from shale project) to the turbo-compressors supplied to its uranium enrichment plant at Pelindaba by *Gütehoffnungshutte*.

When President Kaunda visited Bonn in 1977 he told Chancellor Schmidt that:

> "The South African crisis is probably the biggest challenge in relations between man and man. The Federal Republic with its enormous economic and technical resources must respond with new determination to the great task of bringing freedom where there is oppression, replacing injustice with justice, stagnation with progress, poverty with prosperity."(16)

But its very economic prosperity has funded a rapid increase in investment in South Africa and made it even more difficult for West Germany to appear as opposed to racism as its neighbour, even though its Foreign Minister stated two months later that it would never gain black Africa's confidence if it appeared to be South Africa's friend.

It is not only in the sphere of economics that the Federal Republic finds itself at a disadvantage. The GDR was one of the first countries to condemn South Africa's Bantustan (or homeland) scheme when it began to take shape in the early '70's. It even described Gatchas Buthelezi who has resolutely refused independence for KwaZulu since it was first offered, as 'a whitemen's stooge'.(17) Five years later it seized upon the invitation from the Essen Chamber of Commerce to Dr. Cedric Phatudi (the President of Lebowa) as evidence of West Germany's interest in investing in the homelands, even though it officially opposed the homeland programme.

And having renounced their German nationality the East German rulers are not averse to drawing upon Germany's Nazi past for analogies with recent South African history which might embarrass the government in Bonn. The South African laws forbidding inter-racial marriage, for example, are frequently compared with the Nuremberg Laws of the mid-30's which prohibited marriage between Aryans and Jews. (18)

The success with which the GDR has exploited West Germany's links with South Africa has undoubtedly helped it to maintain a pretense of interracial solidarity in its pursuit of less disinterested goals. This is merely another illustration of how its presence in southern Africa is much more threatening than

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Cuba's. Consciousness of their failure to secure black rule in South Africa may inspire the Africans to retain strong links with the East, if only because contact with East Germany seems an appropriate rejoinder to the West-German/South African 'axis.'

Conclusion

All things considered the GDR cannot be considered a surrogate of the Soviet Union, although its interests are certainly not opposed. The question is whether the Soviet Union can secure the uniform support of its allies for its own objectives in southern Africa. The existence of interests of their own has already altered its perspective, though not necessarily its aims.

There is a strong feeling in Moscow that the use of Cubans is not enough and that the Warsaw Pact should attempt, without in any way exceeding the bounds of caution, to co-ordinate a strategy for southern Africa. The East German leaders, in undertaking this role, have done so in pursuit of their own political interests, for the same reason they subcontracted to Cuba in Angola and have competed openly with West Germany.

Although an extensive consensus exists in eastern Europe, this is not the case on all issues. Outside the immediate orbit of the Warsaw Pact, opinions are often divided, perhaps too divided to secure effective co-operation. The Soviet Union may therefore count itself fortunate that its own strategic objectives in southern Africa and East Germany's political interests have both found something in common.

FOOTNOTES

(1) *Towards improving US-Cuba relations* 95th Congress 1st Session Report of a special study mission to Cuba February 1977 (Washington D.C. 1977)p15

(2) *New York Times* 12 June 1976

(3) *Süddeutsche Zeitung* 9 February 1977

(4) *US interests in Africa* Hearings before the subcommittee on Africa of Committee on Foreign Affairs House of Representatives 96 Congress 1st Session October/November 1979

(5) ADN 24 February 1979

(6) AfP 21 February 1979

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(7) *The Washington Post* 12 December 1978
(8) *Africa Confidential* 17 January 1979
(9) cited Peter Janke 'Marxist statecraft in Africa: what future?' *Conflict Studies* 95, May 1978, p6
(10) Hartmut Zimmerman 'The GDR in the '70's *Problems of Communism* March-April 1978, pp11-12
(11) *Neues Deutschland* 9 February 1972
(12) *Deutsche Aussenpolitik* 25 November 1975
(13) *International Herald Tribune* 8 February 1979
(14) *Die Vaterland* 7 January 1976; *Windhoek Algemeine Zeitung* 16 January 1976; *Die Welt* 21 November 1976
(15) *The Sunday Times* 25 June 1978
(16) *Afrika* 28:7 July 1977 p4
(17) *Deutsche Aussenpolitik* 17 August 1971
(18) Klaus Willerding 'Die DDR und die nationalbefreiten staaten Asiens und Afrikans' *Asien, Afrika, Lainamerika* 25, 1974

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THE ECONOMIC JUSTIFICATION FOR GOVERNMENT AND GOVERNMENT GROWTH

By Richard B. McKenzie

Growth in government has been dramatic over the last several decades. In the United States, for example, real government expenditures in 1977 were over 12 times what they were in 1933.

The search for ways of curbing the rate of increase in government growth has become very pronounced in recent years, especially under pressures mounted by people like Howard Jarvis, who are concerned about the durability of individualistic values and the productive efficiency of the private economy. Mincing few words, Milton Friedman observed back in 1967 that "All in all, we work from January 1 to nearly the end of April to furnish the wherewithal for government spending; only then can we turn to providing for our private needs. . . . This situation would be dangerous to our liberty even if we were getting our money's worth from present government spending. But there is scarce a man so rash as to say that we are." (1) In 1980, Tax Independence Day could not be observed until the latter part of May.

Through all of the complaints, government marches relentlessly into new areas. Growth in government regulatory control has been as impressive as, if not more impressive than, growth in budget totals. Explaining the observed growth in government at all levels has been a major concern of social scientists in general and economists in particular. The established "causes" of government growth are also as diverse as the backgrounds of the researchers. Explanations suggested include: 1) Increases in people's incomes have increased people's demand for publicly provided goods and services. 2) People's tastes have changed in favor of more government control of the private sector. 3) constitutional barriers to government intervention in the private economy have been gradually eroded during the last 100 years through a series of pivotal court cases. 4) Growth in the public sector has led to an increase in the relative number of voters who have a direct personal interest in the further expansion of government. 5) Through changes in voting rules, large numbers of minority groups and 'disadvantaged' persons have been given

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greater political power which they use to increase the flow of public expenditures, principally in their own direction. 6) James Buchanan and Richard Wagner have recently argued that with widespread acceptance of Keynesian economics, the "balanced budget norm" of the pre-1960 era, which constrained Congress from spending more than it collected in taxes, has been broken, (2) Government can, with the blessing of the vast majority of academicians and journalists, spend more than it collects in taxes in order to "stimulate" the economy; the additional output that is achieved from deficit spending is seen as essentially "free" and a reflection of improved "efficiency" of the private sector due to government policy. The same, Keynesian policy precepts have given politicians, interested in being elected, the economic justification they need to expand the public sector, to distort the perceived price of public goods and services, and to effectively "buy" votes by offering their constituencies benefits which are not fully financed by explicit tax-prices.

The purpose of this paper is to extend the list of causes of government growth. It will seek to examine a principal *economic* justification for government, which is the "failure" of private markets to produce efficiently in the presence of "external costs" and "external benefits"; to show how that argument for government is normally formulated and how the micro-economic setting in which it is developed leads, as does Keynesian analysis, to policy consequences partially unimagined by its adherents; and to demonstrate that these supposed "economic justifications" for government can cause government to expand to a scope and size far beyond limits prescribed by economic efficiency.

The Economic Justification for Government

The intended purpose of any theory in the social sciences is to focus the attention of the researcher on a pre-selected, restricted set of causal relationships. Its purpose is to foster, within bounds, an intellectual myopia in order that insights can be gleaned from the wealth of information that the researcher can possibly confront in the course of his investigation.

Micro-economic analysis enables the theorist to restrict the dimensions of his analysis; it enables him to home in on very

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"local" problems and to recommend specific policy solutions to the market inefficiency that is observed or conceptualized. However, by the nature of the theoretical tools that are employed, many secondary effects are left unconsidered, either because they are of no direct concern to the investigator or because they are deemed to be inconsequential.

Consider the way in which government is conventionally justified on economic efficiency grounds. Voluntary collective action among large groups of people and markets will fail to produce the social optimum output level of many private goods when external costs (i.e. smoke pollution) or external benefits (i.e. increased property values due to beautification programs) are present in production and/or consumption: The market will "over-produce" a good when external costs exist simply because, by definition, not all costs are incurred by producers and consumers. Consumers of the good are effectively subsidized by third parties who incur part of the costs. The market will "under-produce" a good when external benefits exist because not all benefits are captured by the market demand for the product and the prices consumers are willing to pay.

The elimination of externalities may be a shared, common interest of consumers and producers. However, in a competitive market, which is composed of a large number of people, there is little or no incentive for individual market participants to voluntarily do anything about the "externalities"; indeed, there is every incentive for them to "free ride" on the attempts of others to correct for any over- or under-production that may exist. Producers who, because of the property right structure, are able to pollute the atmosphere with carbon monoxide have no incentive, in the absence of government coercion, to compensate third parties for the losses that are incurred due to smoke damage or to incur the cost of pollution abatement equipment. Indeed, if some producers do attempt to act individually in a "socially responsible" way to cut back on the pollutants they emit, then their cost of production will rise relative to other market participants, causing their competitive position to worsen. All producers may be fully concerned about the deterioration of the environment, but none will have, in a highly competitive market, a private incentive to do that which is recognized to be in their interest.

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Highly competitive markets are highly efficient when all costs are fully internalized within the firms; however, those same market conditions will lead to maximum market distortions (under- or over-production) when some costs are imposed upon or some benefits are received by third parties.

As presented above, externalities cause "market failures," and market failures are fully recognized in economic theory as a necessary, but not sufficient condition, for government production of public goods and government intervention into private markets. The sufficient condition for government production and intervention is that the benefits or improved efficiency due to government action must exceed the costs of bringing about collective action through legislation. Assuming these conditions are met, market inefficiency associated with external costs can be corrected by appropriate taxes; market inefficiency associated with external benefits can be corrected with appropriate government production or subsidies to producers or consumers.

In a very restricted sense specified by economic theory, externalities can be (as they have been) used to explain public provision of basic law, police protection, roads, education, and systems of justice. Throughout much of economic literature, market externalities are presumed to define the scope and boundaries of government. The assumption is often made, albeit implicitly, that government resolves problems of externalities instead of creating additional externality problems which in turn must be corrected by further government intervention.

This predisposition toward government is readily fostered by pedagogical techniques. An instructor typically considers in class the demand for a given public good and the costs of its provision, isolated from an array of other actual and potential goods and services which can be offered by government. He points out the inefficiency of individual, as opposed to collective, action; and then shows how problems of inefficiency can be corrected by appropriate government production or by appropriate tax-pricing schemes. The graphs that are used are self-constrained; the curves in them are rarely if ever moved in response to government provision of other goods and services or to government intervention in other private markets.

When "general equilibrium" analytics are employed, the simplified theoretical framework highlights the trade-off

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between some vaguely specified public good and an equally obscure private good. The two goods are assumed to be the only possible goods in the market. The interactive effects among public goods and services is (almost) never considered.

Government intervention, per se, is presumed to correct the problem that is conceptualized; rarely is mention made of the possibility that a corrective proposal for one problem may lead to governmentally induced externalities and the need for further government action. The theoretical model employed is truly "partial equilibrium" analysis. Accordingly, the net social benefits of government action are seen as the "welfare triangle" minus the cost of collective action and provision of that particular good. In summary, the analytics of the economic justification for government action all too often presuppose that government, by intervening in private markets, does not extend the case for its own existence.

Examples of Governmentally Induced Externalities and Solutions

Examples abound of how government actions create externalities. Consider the following non-exhaustive but representative list.

Automobile Insurance

Wreckless driving on the highways by some drivers imposes external costs on surrounding drivers. Government has, therefore, a legitimate function of specifying requirements for driver's licenses, speed limits, and other rules of the road. In addition, the government has economic justification for requiring all drivers to have insurance on their cars. People's insurance premiums, however, are dependent upon such factors as the accident rate, the severity and cost of people's injuries, and the cost of replacement parts for automobiles. In turn, the accident rate is dependent upon, among other things, the amount of liquor and drugs consumed, the drivers' education level, and the mechanical condition of automobiles on the road. The cost of people's injuries is dependent upon the fees of doctors and hospitals which are dependent upon the prices of a host of resources, and so forth.

A change in doctor fees, costs of replacement parts, or the education level of drivers can affect people's insurance pre-

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miums: Without governmentally required automobile insurance, such changes are the types of consideration a person must include in his own calculations to voluntarily continue with an insurance contract. The changes, in the jargon of welfare economics, are "pecuniary externalities." No one is forced to continue with the purchase of insurance, and each individual can adjust his expenditures and can seek a new equilibrium when market changes occur. However, when government forces people to buy insurance as a condition of owning and operating an automobile, the choice domain of the individual is immediately restricted. The actions of people who cause an increase in insurance premiums leave all other policy holders in a disequilibrium, because of their restricted choice domain and because they have to bear a cost as a result of the actions of others. People cannot adjust marginally to changing insurance premiums because markets are restricted; people must buy insurance of a certain amount and pay premiums that are prescribed by class characteristics and government fiat. Markets, which would allow them to "buy" themselves into a new marginal equilibrium, do not exist. To adjust to higher insurance rates, people must make structural changes: they must stop driving or move to another state or country.

With mandatory insurance, a pecuniary externality is converted to a "technological externality," much like industrial smoke pollution. Smoke polluters can emit pollutants and impose a cost on people adversely affected by the fouled atmosphere. The smoke results in economic inefficiency simply because the people who are harmed by the smoke (a "technological external cost") cannot pay the polluters to curtail what they are doing. Under mandated insurance systems, individual policy holders are in essentially the same economic positions as persons who are adversely affected by smoke.

To reduce the technological externalities that are created by required automobile insurance, government can justify *on economic grounds* the further extension of its authority: It can rationalize government regulation of liquor consumption, automobile safety through inspection systems, and medical expenditures for injuries. Furthermore, since the cost of automobile parts affect insurance premiums, the government has an argument for the regulation of automobile productions. Since doctor and hospital fees influence automobile premiums, the

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government can justify the extension of its services into regulation of the medical industry; indeed, it can argue for government production of subsidized medical services. Conceivably, if the government wishes to carry the analysis to its logical conclusion, it could justify the regulation of suppliers of the automobile and medical industries on the grounds that their cost structures then have external costs effects on insurance policy holders.

Thinking in terms of an input-output matrix of the economy, required automobile insurance could possibly lead to the regulation of the entire economy. Although at some point the external effects of private actions have inconsequential effects on insurance premiums, recognition of the logical extremes to which government action can go suggests that as automobile travel increases, the external consequences of any class of actions increases. Accordingly, as travel increases the argument for extending the domain of government becomes progressively more reasonable on economic grounds.

Agricultural Aid

Although it requires one to stretch his imagination, an *economic* justification for governmental aid to farmers can be developed. Consider a frequently heard argument. Because agriculture plays an important role in the economy and because instability in agriculture markets causes instability in most other markets, stability in agriculture is a "quasi-public good," which can be efficiently produced only by government intervention in the form of price floors or production controls. Besides, so it may be argued, small family farms are an important component of the "American culture." If family farms go the way of horse and carriage producers, then all America will be poorer for their demise. Again, the argument attaches public good characteristics to the farming industry and creates an economic case, as poor as it might be, for government intervention.

Government agriculture programs, however, have tended to raise the prices of people's food. Many poor people are made worse off. To correct for that economic problem of the poor, the government can justify the subsidization of the poor's food budget. Taxpayers not only have to pay taxes in order to buy up agricultural produce, if a price support system is used, but also to pay for the food stamps given to the poor. Because of government intervention in farm markets, the productivity of

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the agricultural sector, as well as the cost of fertilizer, seed, and equipment, will influence agricultural markets and, secondarily, people's tax rates. The government, therefore, has the *economic* justification it needs to control these secondary market effects, either by setting standards of production or by appropriate manipulation of taxes and expenditures.

Police and Fire Protection

The external benefits of police protection are fully recognized in economic literature. To the extent that the police are able to deter crime in a given geographical area, then all within that area benefit from the lower risk of being a victim of a crime. People in the protected area benefit from police services regardless of whether they make any payment toward covering the cost of services. Again, however, the provision of police services means that large classes of individual actions now have external effects. People who fail to lock the doors of their houses or cars or even to buy locks for their doors or who engage in domestic fights divert police resources from other uses and/or force an increase in the costs of achieving any given crime rate. Public provision of police protection means that many classes of individual actions will generate, as in the case of automobile insurance, technological external costs. The public good of police protection is communal property, to be used (like atmosphere) on a first-come-first-serve basis at what approximates a zero price. As with any other communal property, individuals will tend to overuse and abuse the resources involved, without further government action. Government, therefore, has the same economic rationale available to it for regulating the constructions of houses, cars, and their locks that it has for the provision of police protection in the first place.

Although exclusion is often possible, fire protection has many of the same characteristics of police protection. Accordingly, fire departments are almost always provided through local government. People who have fires, however, impose a technological external cost on the rest of the community, especially if aid in the form of income assistance and hospital care is provided to fire victims. Hence, communities like Clemson, South Carolina have used the externality argument to justify ordinances which require homeowners to install smoke detectors. The public good of fire protection has also been used as a justification for many building codes which specify the types of fire-

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retardent materials which can be used in buildings.

Disaster Relief

State and federal disaster relief to victims of such natural events as floods, tornadoes, and earthquakes are justified on the grounds that charity is a public good which benefits virtually everyone who cares about the welfare of others. The market, if left alone, will produce sub-optimal levels of disaster relief. Because, victims of floods become, when disaster relief programs are instituted, entitled to certain forms and levels of aid, an economic argument can be made for providing subsidized insurance against floods.

However, the direct disaster relief or the subsidized flood insurance reduces the costs which victims bear in the event of a flood. These reduced losses increased the demand for property in flood prone areas, increase the willingness of people to erect buildings in flood prone areas, reduce people's incentive to remove property from flood zones when a flood is threatening, and therefore increase the loss of property when floods occur. Again, individual actions, through their impact on damage claims and and taxes, have external effects and government has the argument it needs for regulating construction in flood prone areas, which it had done.

Unemployment Compensation, Welfare, and Education

Unemployment compensation and welfare programs extend the scope of the government far beyond the needs of a "minimal state." People who are unemployed or impoverished, for whatever reason, are entitled to public assistance which can come in a variety of forms from food stamps to housing allowances to outright cash grants. The unemployment of people adds to the welfare burden of the state. Therefore, because education has an influence on people's productivity and employability, the government can justify extending its educational programs, providing educational facilities and increasing the ease with which any form of "human capital" can be acquired. Many of the increases in state expenditures on education observed in recent decades are, for example, not due to the external benefits of education, per se, but rather are due to the governmentally induced external benefits of welfare programs.

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The state-wide systems of technical institutes and community colleges that sprang up in the late 1960s probably were, in part, a response to newly assumed welfare responsibilities of government.

Because of the technological externalities of welfare programs, day care centers for working mothers have been instituted and expanded. Washington, D.C. has justified child care facilities in its junior high and senior high schools on economic efficiency grounds. If teenagers are unable to go to school because of their children, so the argument goes, the mothers will go onto the welfare and unemployment roles. The city and, ultimately, the taxpayers will pay the bill. To prevent the development of such externalities, child care centers, which at one time were a strictly private good, are provided as a public good.

Economic Stability

To the extent the value of the dollar is kept stable and income and employment are maintained at high levels, the community at large benefits in terms of reduced risks associated with holding dollars and seeking to improve one's life-time income. On these grounds, government can legitimately design fiscal and monetary policies to foster monetary stability and favorable business and employment conditions. However, having assumed responsibility for the overall health of the economy, new classes of individual actions affect the federal government budget and the stability and economic conditions that are desired. Detailed control of many sectors of the economy can, therefore, be supported by economic analysis. As Friedrick Hayek has repeatedly pointed out, almost complete, totalitarian-type control may not only be desired by government administrators but may be necessary to insure that monetary and fiscal policies have the intended effects. (4)

Budget Size and Governmentally Created Externalities

The provision or a public good can create technological externalities because of the influence which classes of individual actions have on the government's taxes and expenditures. That has been a unifying theme in all of the examples cited. However, an important qualification needs to be added: the extent of the governmentally created externalities and, hence, the expansion of the legitimate domain of government depends critically upon the existing size of the public sector.

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A relatively "small" public sector means that any set of individual actions can affect few government programs, the necessary allocation of expenditures among programs, and the taxes which are required to support any given level of government activity. For example, if the government budget is only $1, to consider the extreme case, the government by definition must be doing very little, affecting few people by the services that are provided and by the taxes that are collected. Given such a low budget, a change in the birthrate, to use a class of individual actions which has interesting implications, can affect few programs and the taxes which people must pay. The birthrate of the population can double, but people's taxes can remain virtually unchanged.

A relatively "large" government, on the other hand, must be providing a relatively large variety of public goods and a relatively large quantity of many goods or services. Classes of individual actions can, therefore, significantly affect a variety of public goods and a relatively large quantity of many goods or services. Classes of individual actions can, therefore, significantly affect a variety of programs and the tax burden of the general citizenry. Changes in the birthrate can affect public expenditures on hospitals, since more beds will be needed; on schools, since there will be more children to educate; on roads and garbage collection, since there will be more miles traveled and more waste products to be removed from homes; and on welfare payments, since more births can mean fewer working mothers. Consequently, when government is large, an economic case can be made for the Government promotion of family planning with greater force than when government is small. Put another way, to the extent that the economic justification for government has an influence on the scope and size of government, the likelihood of governmental control of the birthrate (as well as many other classes of actions) is raised with an increase in the size and scope of government. To the extent that size of government affects the legitimate domain of government, the externality argument for government perpetuates expansion of government, at least up to some point. Once government breaks out of the confines of the "minimal state," defined by strict constitutional barriers to government expansion, growth in government can have a "snowballing" effect. The logical extreme may be, but not necessarily is, pervasive

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governmental, collective control of the economy. The analysis of this section, at the very least, may explain much modern interest in national economic planning.

The Marginal Propensity of Government to Expand

If government activities cause classes of individual actions to create technological externalities, then why is the externality problem not resolved by a contraction of government? Why is there a tendency for government to take on new responsibilities and to expand in size and scope? Several answers can be tendered. First, many voters do not recognize the cause of the externality problems. Externalities present complex conceptual and empirical problems for even the well-educated voters. Furthermore, politicians, bureaucrats, and potential beneficiaries of expanded government programs have a personal interest in making the general citizenry believe, correctly or incorrectly, that the inefficiency created by the new technological externalities can be remedied at very little cost or at a cost that is less than the value of the benefits.

Second, the established governmental programs can be treated by rational voters as sunk costs, to be ignored, as all sunk costs should be, in the day-to-day marginal adjustments made in Congress or state legislature.

Third, the governmentally created technological externalities are spread, through the budget and tax system, over a large number of people, no one of whom is affected very much by the externalities. The general population has very little incentive even to learn about the source of the new external costs which they bear, much less become sufficiently active in politics to increase significantly the probability that the scope and size of government will be reduced. On the other hand, there will be beneficiaries of expanded government programs who have a significant stake and interest in seeing government grow. These people will tend to be much more politically active than the general population. The uneven balance of political activism between those who want an expanded government and those who have an interest in reducing the size of government fosters a political bias in favor of government expansion. (5)

Fourth, the technological externality of a given set of individual actions like births can be due to a number of government programs, as we have pointed out. When individual pieces of legislation are considered separately, the passage of

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legislation to promote family planning, for example, may be politically less costly to achieve than a cut back in expenditures on existing government programs. In short, it may very well be easier to legislate a family planning program than to reduce the budget of an array of government welfare and educational programs which promote the birthrate among lower income groups. Again, there can be a political bias, based on economic consideration, in favor of government expansion. The expanded size and scope of government becomes "locked-in," which increases the likelihood of further government expansion.

Concluding Comments

The central thesis of this paper is straightforward: The technological externalities caused by government actions have been largely overlooked or ignored in traditional welfare economics. If recognized, those externalities can explain much modern growth in government; they also help explain the accelerating pace of government expansion. Any phenomenon as far-reaching as government expansion has, of course, many causes; the purpose of this paper has been to focus on one cause that has been largely excluded from consideration by the analytics of public goods theory.

FOOTNOTES

(1) Milton Friedman, *An Economist's Protest: Columns in Political Economy*, Glen Ridge, NJ: Thomas Horton and Daughter, Inc., 1972, p. 71.

(2) James M. Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes*, New York, NY: Academic Press, Inc., 1977.

(3) For a discussion in the relationship between absence of a market and the presence of "technological externalities," see Francis Bator, "The Anatomy of Market Failure," *Quarterly Journal of Economics*, August 1958, p. 351-379.

(4) F. A. Hayek, *The Road to Serfdom*, Chicago, IL: University of Chicago Press, 1944; and "Full Employment, Planning and Inflation," *Studies in Philosophy, Politics and Economics*, Chicago, IL: University of Chicago Press, 1967, pp. 270-279.

(5) For a discussion of the disproportionate political influence of special interest groups, see Anthony Downs, *An Economic Theory of Democracy*, New York, NY: Harper and Row, Inc., 1957; Gordon Tullock, *Toward a Mathematics of Politics*, Ann Arbor, MI: University of Michigan Press, 1967; and Mancur Olsen, *The Logic of Collective Action*, Cambridge, MA: Harvard University Press, 1967.

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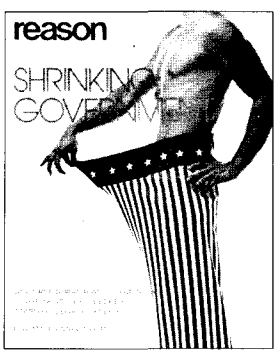

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THE NEW RATIONALE FOR UNIONISM

By Morgan O. Reynolds

> "Basically, we are impressed by what seems to have been before 1930, and what seems to exist today, a feeling of 'unease' in the presence of unions on the part of large segments of the population."
>
> Douglass V. Brown and Charles A. Meyers
> in *Public Policy and Collective Bargaining*,
> 1962, edited by J. Shister, et. al.

The popular rationale for unions and their actions is that they provide employees with protection against employers. Unionists, intellectuals, and the general public believe that employers have so-called superior bargaining power, which can be used to "abuse" the wage, hour, and working conditions of employees if they have no union. Pointing to the real and imagined evils of the 19th century, unions proudly claim that they are a partial offset to the "excesses of capitalism," a corrective in an unjust society.

Professional economists, however, never offered much support for this doctrine. Generally, enterprises are forced by competition among businesses to pay competitive prices for all productive inputs, including labor services. There are too many buyers and sellers and too much mobility for an employer, no matter how large, to depress wages and working conditions for any significant period of time. To be sure, economists treasure exceptions to the predominantly independent, competitive behavior of buyers of labor, such as in professional sports and NCAA athletics, but the exaggerated belief in employer power over wages and working conditions is largely a credit to union propaganda and public gullibility (or disinterest) rather than economic analysis.

The Concept of "Collective Voice"

A new economic rationale for unionism has now appeared with a far more respectable academic pedigree than the tired story about employers exploiting helpless employees. Based on modern economic theory and econometric techniques, Professors Freeman, Medoff, and others in the Harvard/National

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Bureau of Economic Research group treat unionism in an analytical, yet sympathetic way.(1) They claim that the traditional treatment of unions as monopolies is seriously misleading because it is necessary to examine the "collective voice/institutional response" role of unionism to fully understand what unions do in modern industrial economies. Freeman and Medoff define "a trade union as the vehicle for collective voice – that is, for providing workers as a group with a means of communicating with management." (p. 71). They find unions are a form of collective action that, on balance, positively affects the economic and social system by providing workers with a "voice" at the work place and in the political arena, that unions generally increase productivity, promote economic equality, and are democratic, noncorrupt organizations. They marshal data and opinion for their view and conclude that their findings "present a reasonably valid picture of modern unionism in our country. It stands in sharp contrast to the monopoly view of trade unions and to many popular beliefs about them." (p. 93).

This new portrait, despite its sophistication, does not capture the essential features of unionism. The trouble partly lies with what they say in their analysis and even more in what they fail to say. The analysis is strangely silent about how union leaders induce managers of businesses and government agencies to listen so attentively to the voice of the "collective." The coercive *means* which unions use to pursue economic gain is a continuing source of controversy for public policy, yet Freeman and Medoff never look at what unions actually *do* and the *tactics* which they employ.

The new interpretation of unionism is unsatisfactory in a number of ways, but the problems take three general forms: 1) some hypotheses are inconsistent with the main features of U.S. unionism; 2) most of the analysis cannot be falsified by empirical experience; and 3) the main issue for public policy – the private use of intimidation, coercion, and violence – is ignored because their analysis only evaluates the economic *effects* of unionism.

The New Rationale Examined

The Freeman/Medoff approach is commonly used in other economic contexts but has a certain novelty in the case of

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unions. Conventional economic analysis, based on the theory of public goods and external effects, often is used to justify governmental intervention. The theory deals with cases where voluntary exchange is impeded by the high cost of negotiating and enforcing exchanges which otherwise would result in mutual gains for the parties involved.

If high costs of exchange impede trade, we have no general guarantee that resources are allocated efficiently through voluntary transactions, and inefficient equilibria are called "market failures." In other words, the actual operation of the market can differ from its ideal operation. This opens the *possibility* that government can intervene to overcome transactions costs by directly changing the allocation of resources to the mutual advantage of all concerned. Unfortunately, the theory does not go the additional steps to tell government officials where the market specifically "fails," nor why we should confidently expect government officials to be motivated to improve efficiency, nor whether actual interventions have the efficiency effects hoped for by economists. Presumably the relevant comparison should be between the actual performance of markets and the actual performance of government.

The externality argument is used to rationalize almost every conceivable coercive intervention and it also is the basis for the new analysis of unionism. Freeman and Medoff say that many aspects of industrial production are public goods or have extensive external effects which affect the well-being of every employee. Therefore, they argue that collective action is necessary because the incentive for any single person to express his attitudes or try to change conditions is small. The free-rider problem supposedly rears its head in this situation and there is too little correction of working conditions. A second reason for collective action is supposedly the "fear" of punishment among individual employees who might otherwise voice their opinion about working conditions.

There is a *possibility* that a political mechanism might correct some of these problems. It has a plausible sound to many ears. The "fear" argument has a Marxist ring to it however, since it is based on a conflict view of the enterprise rather than a medium through which employees, managers, and investors voluntarily communicate and cooperate to their mutual advantage. Truly voluntary exchanges, including those for labor services, involve

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mutual agreement about terms of trade. But there certainly is the theoretical possibility that a union organization could correct some exchange failures within some enterprises. Unions might be service agencies who are responsive to the collective wishes of its membership rather than predominantly monopolizing vehicles of power.

This hopeful view of unionism is a naive picture of the central features of the *national unions* which prevail in the United States. Effective service organizations are local, not national in scope. Locals are close to the membership in a plant, company, or area, making it easier to discover and act on their constituents' desires. Beyond the local level, the collective character of common working conditions virtually disappears – how much do steelworkers in Alabama care about working conditions in Pittsburgh?

Independent unions, which engage almost exclusively in local level bargaining, fit the description of the service role of unions. They generally do not use economic force or take to the streets, but these organizations long ago were derided as company unions by "legitimate" trade unionists. Section 8(a)(2) of the Wagner Act prohibits employer participation or financial support of any labor organization, spelling the end of most company unions and relieving national unions of an effective competitor. Some employees would prefer an employees' association based on the notion of mutual cooperation with an employer, rather than the union model of conflict between capital and labor.

In 1935 at the Senate hearings on the Wagner Act, there were numerous witnesses who were members of company unions. They argued that the Act would eliminate these successful working relationships. Senator Wagner effectively deflated their testimony whenever he asked them where they got the funds to come to Washington. They answered "from the company." Today more than 90 percent of union membership is in fewer than 50 industry-wide unions with over 100,000 members each. Independent (company) unions are insignificant. (2)

Collective bargaining is industry-wide and decision-making power is vested in national union officials. As William Leiserson writes:

> . . . the basic unit of union government is the national union, and not the local as is often supposed. . . . All

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> sovereign powers are in these national unions. Their governments are supreme over all members, local unions, and other subordinate bodies. . . . In terms of citizenship a union member is a citizen under the government of his national or international union . . . Local unions are mere subdivisions of the national organization whose constitutions provide for their government as a state does for its counties, cities, towns, and villages . . . National laws provide for the suspension, merging, and abolition of local unions. Local officers may be removed by the national executives who may appoint administrators to manage their affairs, sometimes without the consent of the local members.(3)

This description is consistent with a monopoly interpretation of national unions. If unions raise labor costs in one area, and enterprises can move, the union must organize workers and raise labor costs in the new area to thwart reallocation of work away from the original membership. Most union practices and policies — tariffs and quotas, opposition to investment overseas, higher minimum wages, building codes, licensing requirements, closed shops, jurisdictional disputes — restrict trade and are consistent with monopoly theory rather than the Harvard/NBER picture of "collective voice."

Freeman and Medoff claim that "unions typically come into existence as a result of management's mistakes in dealing with its workforce." (p. 92). The implication must be that the number of management mistakes (unmeasured) has been greater in some industries than in others. This appears rather implausible compared to the usual explanation for concentration of unionism in certain sectors of the economy, namely, that rewards to organization are higher and costs lower in some industries. For instance, before the favorable legislation of the 1930s unions consisted almost exclusively of groups of craftsmen because they met two conditions: 1) large potential gains in wages because of inelastic demand for their services, and 2) a low cost to organize (small numbers of workers, low turnover rates, employers who were few in number or geographically concentrated).(4) After more than 40 years of favorable governmental regulation, unions are still primarily found in crafts and industries where the labor market is highly concentrated. This explains the high degree of unionization in mining, railroads,

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airlines, the building trades, printing, and public utilities. Industrial unions are largely found in industries with few employers — transportation equipment, primary metals, electrical machinery, and petroleum refining. Unions have not had to overcome the tremendous costs of organizing many small employers in these industries, which has traditionally limited unionization in sectors like wholesale and retail trade, the services, and agriculture. A large nonunion sector in an industry always limits union wage increases to small amounts anyway, even if some firms are unionized.

The new view claims that unionism, on balance, induces socially beneficial increases in productivity. This is allegedly accomplished because unionism reduces the quit rate, enhances worker morale and cooperation through seniority, and pressures management into stricter efficiency. If unions actually raise production more than wages, labor costs per unit of output would fall. Union enterprises would be more profitable and efficient than nonunion enterprises. This makes it difficult to explain why unions invest so much effort to promote new regulations to restrict competition from nonunion labor. It also is difficult to understand why owners of firms, who presumably want to increase their incomes, are willing to spend substantial sums to avoid unionization. The Freeman/Medoff answer is that managers wish to preserve their decision-making power at the expense of profits and that there is some risk because unions don't always offset their negative effects with higher production.

The problem with the productivity claims for unions is that managers, investors, and employees in nonunion firms have every financial and personal incentive to discover and adopt any techniques which produce the allegedly large gains in production. Freeman and Medoff implicitly believe that there are abundant profit opportunities which go unexploited because of a lack of union pressure.(5) Unions may have some independent productivity-enhancing effects, but they cannot be the dominant effects of unionism. Freeman and Medoff say that unionism may increase productivity in some settings and decrease it in others. Unfortunately, they offer no guidance about what these settings might be.

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The Old Problem

The real difficulty with Freeman/Medoff picture of unionism is that they never look at what unions actually *do*. A positive analysis of union behavior is crucial because the *means* which unions use is the real policy issue. This explains the plethora of laws, regulations, and rulings directed at union tactics.

The rights of workers to use collective action in order to supplement the market process is not an issue. Workers can associate, organize, voice their grievances collectively, bargain collectively, and withdraw their services collectively as they choose. The private use of intimidation, coercion, and violence is the issue. Unfortunately, most academic discussions of labor relations, including Freeman/Medoff, ignore this aspect of unionism or else treat it as unimportant.

Unions try to fix wages above market rates via "collective bargaining." This term is misleading because if unions simply bargained for their membership, and abstained from the use of coercion, wages could not be higher than supply and demand would allow.

The principal tactic which unions use to achieve higher wages and superior working conditions is the strike, or threat of strike. It is interesting to note that terms like strike and picket line are borrowed from the military vocabulary. A great deal of confusion has been deliberately spawned about the "right to strike." If strikes were nothing more than peaceful withholding of labor services by incumbent employees, strikers would be exercising their basic market right to refuse to deal on unsatisfactory terms.(6) Two conditions are necessary for a *noncoercive work stoppage* to achieve economic gains for strikers: 1) an employer must offer wages and working conditions below prevailing market rates ("substandard"), and 2) employees must be dissatisfied enough to feel that an organized work stoppage is the device to voice their displeasure. Under these conditions, an employer quickly discovers that his offer is substandard because he cannot attract enough replacements of comparable quality without raising the ante.

But this is not how most strikes work. When a strike is called. some employees prefer to continue working, including some union members who are unsympathetic with the strike. Other people, currently unemployed or employed elsewhere at less attractive terms, seek the work abandoned by strikers. The

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union's problem is painfully obvious: they must *close* the market to uncooperative workers to force wages and working conditions above open-market rates. A successful strike depends upon the ability to persuade *everyone to strike.* Too many individuals wish to go their own way, and unions resort to force.

Ironically, union strikes do not reflect worker solidarity so much as conflict between organized labor and unorganized labor. "Scabs," "rats," and "strikebreakers" are the central problem for unions, not a handful of greedy capitalists. Union tactics are wellknown: mass picketing, insults, hate phone calls, physical assaults, property destruction, sometimes even murder. The violent history of unionism is no accident: it is a consequence of a system of labor markets in which private groups, within flexible limits, are allowed to use force. Unions often claim that their struggle is against abusive employers, but many actions are directed at workers who do not feel that unions serve their interest, compared to mutual cooperation with an employer. *Labor disputes are basically conflicts between organized and unorganized workers*, not conflicts between capital and labor.

It is true that many union leaders publicly deplore violence. Professor Petro, however, points out that unionists commonly consider it their right to blockade businesses which do not meet union demands. It is hard to imagine anything less consistent with free enterprise. Workers who do not cooperate with the union are considered subhumans who run the risk of getting what they "deserve" because, after all, their willingness to work incites the spontaneous outrage of strikers. Police protection to enable nonstrikers and the general community to peacefully cross picket lines is termed strike-breaking and union-busting. Within broad limits, however, government officials do little to protect law-abiding citizens from union coercion. The police and courts, reinforced by public opinions accommodate some union violence because they believe that it furthers the public purpose of "helping labor." The view that labor unions' ends justify the means has been encouraged by a century of effort in the intellectual community.

Many believe that government acts on behalf of employers when it finally intervenes to protect nonstrikers from attack. In the old days, when companies hired private security forces to protect their property and their right to continue production

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during a strike, the inevitable outbursts of violence were portrayed as private attacks on workers by capitalists. It would be more accurate to say that citizens attack each other if government fail to secure ownership rights, private substitutes are used.

Although coercion and threats are not all of unionism, they are a part of union behavior in this country, an important part. We must go beyond the observation that union leaders help resolve (and inspire) worker grievances in workplaces under existing collective agreements.

It is a mistake to point to the strike statistics, as Freeman and Medoff do, to claim that union violence and disruption is an inconsequential part of unionism. Strikes are a small proportion of total work hours (less than 1 percent) because they are "mistakes." If unions and managers had perfect foresight it would pay them to agree to the post-strike settlement without incurring the costs of a strike. But the world is filled with uncertainties and different perceptions about the environment and strengths of contestants.

During the 1970s. there were 5400 recorded work stoppages per year, or 20 new strikes each business day. Approximately 60,000 contracts were negotiated each year, so about 9 percent of negotiations ended in a strike. An unknown number of the remaining 54,000 negotiations each year however, avoid a strike "at the last minute." Basically, it remains negotiation between an armed and an unarmed party, no matter how many strikes are avoided by concessions.

A complete absence of strikes would not change the nature of unionism, stated bluntly, wages and working conditions above free market results can only be preserved by force or threat of force. If everyone knows that a union has overwhelming power to exclude and disrupt, the power need not be used. As Henry Simons put it, "Where the power (of coercion and intimidation) is small or insecurely possessed, it must be exercised overtly and extensively; large and unchallenged, it becomes like the power of strong government, confidently held, respectfully regarded, and rarely displayed conspicuously." 7

To understand how strikes work is not anti-labor or anti-union. People of all persuasions correctly refer to the strike as a "weapon." It is only disturbing because the analysis explicitly

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shows how wages and working conditions above free market results depend upon violence or credible threat of violence. Regrettably, I cannot find a more pleasant way to state the truth.

It is fruitless to blame unions for their use of force to pursue monopoly gains or to urge them to "reform." They are responding to the incentives which allow them to basically operate outside of the law. (8) Other private occasions with the same immunities would act the same way. Professor Petro is undeniably correct in saying:

> If, for example, businessmen were allowed to compel the purchases of their customers, to assault them when they showed any intention of removing their patronage, and to block access to competitors – there is very little reason to believe that such conduct would not become common business practice. . . (9)

The Freeman-Medoff picture of national unionism is supposed to be "in sharp contrast to the monopoly view of trade unions" but, if so, it is also in sharp contrast to reality.

FOOTNOTES

(1) Richard B. Freeman and James L. Medoff, "The Two Faces of Unionism," *The Public Interest*, 57 (Fall 1979): 69-93; related work includes C. Brown and J. Medoff, "Trade Unions in the Production Process," *Journal of Political Economy*, 86 (June 1978): 355-378; R. B. Freeman, "The Exit-Voice Tradeoff in the Labor Market: Unionism, Job Tenure, Quits, and Separations," *Quarterly Journal of Economics*, forthcoming; and R. B. Freeman and J. L. Medoff, *What Do Unions Do?* (Basic Books, forthcoming).

(2) For a study of independent unions see John J. Collins, *Bargaining at the Local Level*, (New York: Fordham University Press, 1974).

(3) William M. Leiserson, "The National Union: Basic Governmental Unit," in R. L. Rowan, editor, *Readings in Labor Economics and Labor Relations*, (Homewood, Illinois: R. D. Irwin, Inc., 1976).

(4) Morgan O. Reynolds, "The Intellectual Muddle over Labor Unions," *Journal of Social and Political Studies*, 4 (Fall 1979): 269-81. For a formal model of monopolistic unionism, see M. O. Reynolds, "Whatever Happened to the Monopoly Theory of Labor Unions?," *Journal of Labor Research*, forthcoming.

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(5) W. H. Hutt argues the point effectively: "It is just not true that prospects of adversity stimulated managerial and technological imagination, enterprise, and effort more than the prospects of prosperity. If it were true, it would be wise for governments to impose burdens on any sector of the economy they wished to foster -- taxing an industry to give it a jolt and thereby to cause it to flourish!" p. 158 in *The Strike-Threat System*, (New Rochelle, N.Y.: Arlington House, 1973).

(6) This section draws on the work of Sylvester Petro, especially his book *The Labor Policy of the Free Society*, (New York: Ronald Press Company, 1957).

(7) Henry Simons, "Some Reflections on Syndicalism," *Journal of Political Economy*, March 1944, p. 22.

(8) Roscoe Pound, "Legal Immunities of Labor Unions," in *Labor Unions and Public Policy*, (Washington: American Enterprise Association, 1958); reprinted in the *Journal of Labor Research*, Fall 1979.

(9) Sylvester Petro, *Power Unlimited* (New York: Ronald Press Company, 1959), p. 213.

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BOOK REVIEWS

STEVEN J. DINER
A City & Its Universities – Public Policy in Chicago, 1892-1919
The University of North Carolina Press, Chapel Hill, North Carolina

By focusing on Chicago's first generation of academic professionals, this study illuminates how modern public policy evolved. In the 1880s university professors of social sciences began to assert the conviction that they possessed special scientific knowledge, which alone could solve the problems of a complex urban industrial society. Steven Diner describes in these pages the nature of their expertise, which they used to solve the problems of the cities and to strengthen their influence in a changing world.

By selecting Chicago as the city for this case study, the author indicates the significance of these early activists on the evolution of the modern bureaucratic socialist state. The nation's second largest city, Chicago attracted attention not only for the magnitude of its social problems but also for the dynamics of its reform movement. Many of the nation's most important social activists lived in the city of Jane Addams, and what happened in Chicago had ramifications for the rest of the nation. At the same time, the founding of the University of Chicago as a full-fledged graduate university brought to the city many of the nation's leading reformer scholars and produced several major intellectual movements. The author endeavors to compare the activities of Chicago's professors with those in other cities and university towns.

The activist professors, believing that their public service activities were selfless and in the general interest, used information networks and local institutions to unite and press their demands in education, "criminal justice", social welfare, and municipal administration. By banding together on the one hand to claim professional autonomy and on the other to offer their special knowledge to those interested in change – philanthropists, businessmen, and political progressives – they were able to establish themselves and the university firmly in American society.

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Within twenty-eight years from the opening of the university in 1892 to the defeat of political science professor Charles E. Merriam in his bid for the mayoralty in 1919, a powerful political movement arose to demand control over the government of the city. Diner concludes that reformers, having failed to gain control at the local level, turned to the federal government in the 1920s in their search for influence and became a force in the bureaucratic welfare programs established during the New Deal years.

While revealing his personal bias in favor of these social activists, Steven Diner has nevertheless written an informative book that will appeal to historians, sociologists and political scientists.

RICHARD E. WAGNER
Inheritance and the State — Tax Principles for a Free and Prosperous Commonwealth
American Enterprise Institute for Public Policy Research
Washington, D.C.

Richard E. Wagner examines the function of inheritance in the social order and the impact of the taxation of transfers of wealth upon this order. The taxation of wealth transfers and socialization of inheritance are advocated primarily as a means of promoting equality. Yet, as Wagner argues, by harnessing the natural partiality of parents for their own offspring, inheritance plays an important role in raising material standards of living from generation to generation, a role that is weakened as the taxation of inheritance is strenghtened. As he examines the social function of inheritance in maintaining and increasing the total wealth of society, Professor Wagner exposes the destructive tendencies of the egalitarian imperative that is so commonly articulated today. He also studies more specific topics, such as the effect of taxation upon total tax revenues, the liquidity problems of closely held businesses, charitable deductions, and the taxation of wealth transferred through trusts, discussing, where appropriate, the changes introduced by the Tax Reform Act of 1976.

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DAN C. HELDMAN and DEBORAH L. KNIGHT
Unions and Lobbying: The Representation Function
The Foundation for the Advancement of the Public Trust, Inc., Arlington, Virginia.

A dozen years ago, the *Washington Star* reported that a confidential survey of AFL-CIO union members had shocked the federation's leaders with its apparent discovery that they were not speaking the "same language" as their members on a wide variety of social and political issues. This survey (and presumably others as well), the results of which have never been released, apparently demonstrated that a large gap separated union leaders from the "rank and file" on such matters as welfare, busing, civil rights, and related politics. Yet unions, then and today, spend considerable amounts of member dues on legislative lobbying despite the fact that these members, then and today, disagree with many of the positions for which the federations lobby.

Unions and Lobbying gathers the evidence on AFL-CIO lobbying objectives and compares them with the opinions of union members. The authors investigated federation publications and the raw data from national-level public opinion polls over a sixteen year period (1960-1976). To make sense of the data, the authors begin by presenting a brief history of unions as organizations and by developing the concept of the representative function. The union member, originally, was considered an "owner" of his union and, in this generally democratic framework, the union represented him in its economic dealings with employers. Since about the time of World War II, however, American unions have tended to follow the path already adopted by European trade unions and have become much more interested in politics. This has been accompanied by a trend towards an oligarchic transformation. As a result – at least with regard to political lobbying – union organizations have become divorced from their members.

The public policy problems stemming from these twin changes are numerous. While unions, like any private group, should have the right to influence the political process as best they can, the authors question whether this includes the right to spend nontrivial sums of money for purposes with which the providers of that money (the union's members) disagree: the issue becomes particularly pointed when employees are

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required to provide these funds as a condition of employment, as is the case where "closed shop" conditions exist. The recommendation is offered that, to be true to their democratic origins and to perform properly their representation function, trade unions must be totally voluntary organizations.

RICHARD CHARLES CLARK
Technological Terrorism
The Devin-Adair Company, Old Greenwich, Connecticut

Terrorism has become a worldwide reality during the past two decades. Professor Clark has provided a concise study of the extreme vulnerability to terrorist attack of modern nuclear power plants, computers, water systems, liquefied natural gas and other energy systems. He also reveals the ready availability of chemical and biological agents that can be used to decimate populations. He documents cases of terrorist action that have already occurred without serious damage – which he sees as trial runs for future major attacks. Technological expertise in the manufacture of weapons of mass destruction has been exhibited in experiments by relatively untrained college students. Materials to produce them are ready at hand by theft from insufficiently guarded nuclear plants and armories and, in the case of chemicals and biological substances, by purchase from mail order houses.

American and other western societies are virtually defenseless in the event of any number of these terrorist scenarios. However, the author suggests government measures and industrial safeguards that can and have been employed in times of crisis to secure the present and future safety without endangering the fundamental rights of their citizens.

GENERAL LEWIS W. WALT, USMC (Ret.)
The Eleventh Hour
Caroline House Publishers, Inc., Ottawa, Illinois & Thornwood, New York

"The United States has been brought, by its own civilian leaders, to a position of military inferiority to the Soviet

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Union. . . . the ultimatum, when it comes, will place on the shoulders of our leaders the terrible decision to fight a thermonuclear war we cannot win or to hand over the American people . . . ": so writes the author in his preface, stating baldly and simply the international situation as he sees it. However, before readers express their cynicism, it is well to remember that General Walt commanded U.S. Marines in the Pacific in World War II, in North Korea, and in Vietnam. This book is packed with his personal experiences and observations, and is well worth reading for these alone, quite apart from the validity of the thesis in support of which he so frankly commits himself.

First and foremost he sees, in restrospect, the victory over the Axis powers as but one phase of a larger war in which World War II was only an early battle — the war against communism.

The war in Korea could not be won, General Walt declares, because the allies fought under the limitations imposed by the United Nations, whose local officials required advance warning before an allied attack on communist positions as well as approval before allied counter attacks, and even imposed limitations on ammunition that might be used at any one time. Repeatedly, he states, the Marines seized key positions at the cost of heavy casualties, only to be told by the U.N. Headquarters Command to relinquish control to the enemy. "We could, of course, have won the Korean War," he writes, "but victory was not the goal of the U.N. officials who manipulated events."

But it is the influence of the major U.S. newspapers that General Walt regards as the most prejudiced: "a news organization is like any other. Somewhere in the organization, one person has to have the final responsibility for making decisions. Thus, a handful of human beings each day have the final say on what 99 per cent of the American people will see as national and international news."

However the reader of this book may choose to react to such simplifications, he or she will be obliged to read the book with care, knowing that General Walt was one of the 1 per cent who has had the privilege of seeing what actually did happen for himself.

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THE ACADEMIC REVIEWER

SPRING–SUMMER, 1979

Editor: ROBERT A. SCHADLER

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Canadian Public Policy

Analyse de Politiques

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From its first appearance in 1975, *Canadian Public Policy – Analyse de Politiques* has helped fill the need for a multi-disciplinary research journal covering current issues of interest to business, government and the scholarly community. There has been a large gap between day-to-day journalistic commentary on policy and the primarily theoretical and technical discussion to be found in academic journals. At the same time, there has been a rapid growth of policy planning and evaluation activities within government whose significance is generally unknown. One result has been a dearth of sophisticated public awareness of governmental activity and a failure to provide effective criticism and alternatives. It has also meant a lack of dialogue between policy-makers and the multiple groups and individuals so directly affected by their decisions. *Canadian Public Policy – Analyse de Politiques* can be an instrument for broadening that process – providing governments with new perspectives and alternatives, and providing groups with a basis for making more informed contributions.

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